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CONFIDENTIAL  
WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON, D. C.

GCM

1

June 1, 1940.

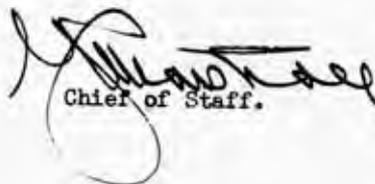
MEMORANDUM for the Secretary of the Treasury:

My dear Mr. Morgenthau:

Thank you for your note of May 28th, enclosing the statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, together with the charts showing deliveries through December, 1941.

This data will be of great assistance to us.

Faithfully yours,

  
Chief of Staff.

CONFIDENTIAL

OFFICE OF  
THE UNDERSECRETARY



DEPARTMENT OF STATE  
WASHINGTON

June 1, 1940

Personal and Strictly Confidential  
For the Secretary of the Treasury

Dear Henry:

I am enclosing paraphrases of two telegrams received today from Bullitt.

With regard to the 100,000 Springfield rifles, I assume that this question is being discussed with Purvis and his associates.

Believe me

Yours very sincerely,

Enclosures:  
From American Embassy,  
Paris, May 31, 1940;  
From American Embassy,  
Paris, June 1, 1940.

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

PARAPHRASE OF TELEGRAM  
FROM AMERICAN EMBASSY, PARIS  
May 31, 1940

3

STRICTLY CONFIDENTIAL

A request from the Ministry of War to expedite the release of 100,000 Springfield rifles with ammunition has just been received. These rifles are needed immediately to equip 100,000 Belgian soldiers in France, the Ministry of War states.

It is incomprehensible to me why such a comparatively trifling request should cause any difficulty. Certainly it should not be difficult to declare 100,000 of these rifles surplus, defective, or obsolete, as I believe we have between four and five million of them on hand.

It seems to me there must be some misunderstanding as this question seems so easy to solve in comparison with certain others which have been solved by our government.

Information with regard to the status of this question would be appreciated.

4

PARAPHRASE OF TELEGRAM  
FROM AMERICAN EMBASSY, PARIS,  
June 1, 1940

It is recommended that military authorities be instructed to go into production at once on the 47 MM anti-tank gun, plans and specifications of which will soon arrive in the United States, due to the fact that this gun has been tested on the battlefield and has proven effective against all types of armored vehicles.

Services of two French engineers who are entirely assuming all construction and functioning of this weapon have been offered by the French authorities.

In reply refer to Initials  
and No.

NAVY DEPARTMENT  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
WASHINGTON

1 June 1940

Dear Mr. Secretary:

Just a note to acknowledge and express my appreciation of the statements showing airplane and engine orders and deliveries to the British and French Governments.

In this connection the enclosed may be of interest to you, particularly as the sheets you sent me are marked "strictly confidential". They were received the same day the enclosure was published.

With all good wishes

Sincerely,

*Keep cheerful*  
*JHR Stark*

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D.C.

Washington Daily

## Merry-Go-Round

(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

The French have been too proud to let the public know it, but they have been almost down on their knees before United States officials to beg, borrow, or buy more airplanes.

The French aviation situation is desperate. How many planes have been smashed is not definitely known—perhaps not even by the French themselves. But most of their air force on the Western Front has been put out of business. It is estimated that at least an equal number of Nazi planes have also crashed, but Germany started with about 18,000 planes, the French with about 2,000.

One big handicap to the French is that they were counting upon British air support. The original tactics were for the French to do the bulk of the land fighting, with the British reinforcing in the air. But this was before anyone realized that Hitler was going to break through the French lines and head straight for the channel.

Now Britain needs every plane she has for the home defense.

So desperate was the French plight that they wanted to buy any kind of plane, even those considered too old for the U. S. Army. The War Department estimates it has more than 1,500 out of date planes. However, the Secretary of War issued an order no later than March 14 prohibiting the sale of surplus Army material even to third parties who might conceivably resell them to France and England.

## Latest Plane Purchases

MEANWHILE the delivery of air-planes already ordered by the French and British proceeds with tragic slowness. Here are the inside figures, illustrating how long it may take the United States to turn out 30,000 planes for itself:

Allies ordered through May 22—Airplanes, 7,588; motors, 20,820.

Delivered to Allies—Airplanes 1,888; motors, 4,022.

Undelivered—Airplanes, 5,700; motors, 16,798.

This includes planes ordered only after the war started, and the fact is that France was much more far-sighted than England and began ordering planes on the American market long before war broke. It was a French pilot, killed in San Diego, that caused such a furore in the Senate over U. S. planes being sold to a foreign country. (Now there is no furore.)

Inside fact is that the British have been woefully inefficient in their plane purchases. When the last British purchasing mission arrived just a few weeks ago, their original instructions were to order 10,000 planes.

But suddenly they got cabled instructions from London to cut the purchase to 4,600. Sir John Simon had changed his mind. Reason for the change is not known, for it came just as the Allies were in a bad spot in Norway. Also it came just before the resignation of the Chamberlain cabinet, and illustrates how much backing and filling there was inside the Chamberlain government.

## British Middlemen

All the inside reports received by the United States War and Navy departments indicate that one of the chief British weaknesses is inability to co-ordinate their production and buying. For instance, the British purchasing mission in Washington has been ready to buy machine tools for the manufacture of munitions in England. But they have not yet received definite specifications from London. So several days ago they wired London for the long-awaited information, finally received a cable that the government had not yet received word from the deal-

ers (or middlemen) as to just what the factories wanted.

This amazed United States Army officers. Long ago our War Department eliminated the dealers and did business direct with the manufacturers. But the British still seem to be struggling along under the cumbersome old system of buying and manufacturing through middlemen.

Sent to me by General Watson  
at 4.30 P.M. June 3, 1940. 7  
W.M.Jo.

MP  
This telegram must be  
closely paraphrased be-  
fore being communicated  
to anyone. (D)

Paris

Dated June 1, 1940

Rec'd. 12:10 p. m.

Secretary of State,

Washington

991, June 1, 2 p. m.

SECRET FOR THE PRESIDENT AND SECRETARY MORGENTHAU.

Foreign Office has just informed me that the joint  
French British purchasing mission in the United States  
has telegraphed that it will be difficult to obtain any  
considerable number of Thompson sub-machine guns in the  
immediate future.

Since the crisis for which these sub-machine guns  
may be needed is likely to arise within two weeks I  
hope that you will be able to ship immediately at least  
a few thousand at once. (See my telegram No. 916 of  
May 28, 1 p. m.).

BULLITT

WSB

PARAPHRASE OF TELEGRAM RECEIVED

Paris

June 1, 1940

Secretary of State,  
Washington.

No. 991, June 1st.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT AND  
THE SECRETARY OF THE TREASURY

I have just been advised by the Foreign Office that telegraphic reports received from the French-British purchasing mission in the United States indicate that considerable difficulty will be encountered in attempting to acquire, within the near future, any sizeable quantity of Thompson sub-machine guns.

In view of the fact that a crisis is likely to arise within the next two weeks at which time these guns would probably be needed, I hope that a few thousand of them may be shipped immediately.

BULLITT

S:HEA  
6/1/40

*Rec'd June 3/40  
9:27 AM*

PARAPHRASE OF TELEGRAM RECEIVED

Paris

June 1, 1940

Secretary of State,  
Washington.

No. 991, June 1st.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT AND  
THE SECRETARY OF THE TREASURY

I have just been advised by the Foreign Office that telegraphic reports received from the French-British purchasing mission in the United States indicate that considerable difficulty will be encountered in attempting to acquire, with the near future, any sizeable quantity of Thompson sub-machine guns.

In view of the fact that a crisis is likely to arise within the next two weeks at which time these guns would probably be needed, I hope that a few thousand of them may be shipped immediately.

BULLITT

S:HEA  
6/1/40

THE WHITE HOUSE  
WASHINGTON

June 1, 1940.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY  
FOR YOUR INFORMATION

F. D. R.

House

CHINESE EMBASSY  
WASHINGTON

TELEGRAM TO  
PRESIDENT ROOSEVELT FROM GENERALISSIMO CHIANG KAI-SHEK  
CHUNGKING, MAY 17, 1940.

The Chinese Government and people, in their bitter struggle against aggression and lawlessness in international life, deeply appreciate the valuable friendly aid and assistance which the American Government has shown them in the past.

Japan's military advance having been bogged down, her undeclared war on China has developed into primarily an economic warfare. Recently the strain on our currency has been aggravated by the announcement of the possible creation of a puppet bank of issue at Shanghai and by the worsening of the European situation, resulting in unprecedented rise of prices and fall of exchange. Unless our exchange resources are strengthened, deterioration of conditions would continue to the further disturbance of trade, while the collapse of our currency would inevitably discriminate against American economic interests. The recent spontaneous appeal of the American Information Committee at Shanghai, urging your Government to extend loan for the support of Chinese currency, was undoubted prompted by the conviction that Japan's renewed attack on Chinese currency is seriously detrimental to American trade.

To meet the present situation the Chinese Government has taken action to curtail all postponable expenditures and reserve internal credit, and to carry out internal policies designed to help upholding the value of the currency.

The Chinese

The Chinese Government has also augmented the stabilization fund, chiefly from the resources of Chinese banks, but also with a contribution from a British bank.

While these measures should permit the tiding over of immediate difficulties, China needs further cash resources to cope with possible developments after the present funds are exhausted and to slow down the rate of deterioration.

I therefore earnestly hope that the American Government under your illustrious leadership can at this strategic time see its way clear to broaden the scope of financial assistance to China by taking into consideration the possibility of supporting the Chinese currency by a cash loan or by other effective means which your financial experts may suggest.

I trust that you, Mr. President, will not hesitate to help our national cause to the fullest extent, particularly at a time when our staunch struggle is approaching the decisive stage of success or failure. If, as I hope, you are favorably disposed to these proposals in principle, I shall be glad to appoint a representative for the negotiation of detailed arrangements.

The Chinese Embassy,

Washington, May 28, 1940.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me at 1 o'clock today to the effect that the Federal Reserve Bank will receive from Canada on Monday 4,600 boxes of gold and on Wednesday 3,596 boxes of gold, all coming from the Bank of France, and valued at approximately \$450,000,000. This plainly shows that France has been taking steps to get her gold out of the country.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

In very light trading, sterling eased from an opening of 3.22-3/4 to a low of 3.20-3/4 late in the morning. It closed at 3.21-1/4.

Sales of spot sterling by the six reporting banks totaled £177,000, from the following sources:

By commercial concerns.....	£ 53,000
By foreign banks (Europe, South America and Far East).....	£124,000
Total.....	£177,000

Purchases of spot sterling amounted to £58,000, as indicated below:

By commercial concerns.....	£ 14,000
By foreign banks (Europe and Far East).....	£ 44,000
Total.....	£ 58,000

The following reporting banks sold cotton bills totaling £19,000 to the British Control on the basis of the official rate of 4.02-1/2:

£14,000 by the Bank of Manhattan
4,000 by the Irving Trust Company
1,000 by the Guaranty Trust Company
<u>£19,000 Total</u>

Developments in the other currencies were as follows:

The French franc moved with sterling and closed at .0182.

The Swiss franc opened at .2243. After a small amount of business was transacted at .2236, it closed at .2242.

The Canadian dollar discount, after widening to 22%, closed at 21-3/4%, slightly better than yesterday's final rate.

The lira and reichsmark closed at .0505 and .4000 respectively.

The Cuban peso weakened further. Today's discount for that currency was 10-9/16%, as against 9-7/8% yesterday. The Mexican peso was unchanged at .1672.

- 2 -

We sold \$500,000 in gold to the Lithuanian Bank, to be added to its earmarked account.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$25,000,000	from the Bank of England
20,000,000	from the Swiss National Bank
350,000	from the National Bank of Belgium
<u>\$45,350,000</u>	Total

There were no new engagements of gold reported to us today.

The Indian metal prices, which have declined in the past few days, experienced a partial recovery today.

The equivalent of the Bombay gold price was \$35.96, up 51¢.

The Bombay spot silver quotation worked out to the equivalent of 44.47¢, a gain of 15/16¢.



CONFIDENTIAL

TREASURY DEPARTMENT

16

INTER-OFFICE COMMUNICATION

DATE June 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke told me by telephone last evening that the Credito Italiano of Milan had opened a confirmed sight credit with the Chase Bank in favor of Amtorg, covering the shipment of crude rubber. (Since Russia does not produce rubber, there is the chance that Russia may be passing on to Italy some of the rubber obtained from British sources.)

The Italian Exchange Institute ordered the Chase to place \$450,000 at the disposal of Mr. Ballerini, Commercial Counselor, of the Italian Embassy in Washington.

The Federal Reserve Bank was ordered by the National Bank of Rumania to pay \$126,000 to the Bank of Italy. By order of the Italian Exchange Institute, the National City Bank has paid \$1,000,000 to J. P. Morgan and Company, presumably in connection with service on Italian bonds.

The National City Bank has been instructed to debit the Italian Exchange Institute for \$109,000, covering a draft drawn by the Commercial Metals Company of London.



ERRASURY

13247

JT

GRAY

17

BERLIN

Dated June 1, 1940

Rec'd 2:13 p.m.

Secretary of State,  
Washington.

1320, June 1, 1 a.m.

A decree issued by the Minister of Justice and effective May 31 extends the provisions of the fifth section of the decree relating to the treatment of enemy property January 15, 1940 (despatch No. 1819 of January 24, 1940) <sup>4462</sup> to enterprises in Germany which are under predominant Norwegian, Netherlands, Belgian, or Luxemburg influence and extends to nationals of those four countries the provisions of the three decrees relating to curatorship in absence (despatch No. 2124 of March 20, 1940). These enterprises and nationals are not, however, designated as enemies and the measure is stated to be for the protection of the property in question.

HEATH

NPL

MA

PLAIN

London

Dated June 1, 1940

Rec'd 6:35 a.m.

Secretary of State

Washington

1463, First.

No new order affecting British securities seized by Germany has been made since 708 of May 12 (not 1708 as stated in the Department's 1045, May 31) with the exception of 709 and 710, copies of which went forward together with 708 under cover of despatch 5246 of May 15, 1940. 709 merely applies 708 to the Isle of Man and 710 revokes 1843 (1939) which allowed free transfer of sterling to non-residents in payment of interest dividends etc, on sterling securities; 710 also extends the sterling area exemption to the 708 security regulations.

There has been a treasury instruction to registrars dated May 15 which contains detailed procedure to be followed in implementing 708. This was forwarded to the Department with despatch 5280 dated May 20.

688 providing new powers of obtaining information and 689 adding diamonds to regulation 5 a commodities both dated May 9 were also forwarded under cover of the despatches referred to above.

KENNEDY

RR

PARAPHRASE OF TELEGRAM

From: Lima, Peru

Dated: June 1, 1940

Rec'd: 10:10 p.m.

64, June 1, 6 p.m.

One. The Minister of Finance contemplated the credit for the purpose of obtaining exchange which cotton exports have heretofore provided. This situation would be met by the credit only until about the end of the year. In 1938, for example, 25 percent of foreign exchange was provided by cotton exports.

Two. Steps to obtain additional foreign exchange were taken by the Government through an agreement on May 22 with gold producers whereby the annual production of gold bars amounting to about 23,000,000 soles will be purchased by the Central Reserve Bank. The producers will receive payment in soles, and will be provided foreign exchange in accordance with their needs. The Bank will hold gold so acquired in order that it may be available for foreign exchange.

Three. Commercial banks in Peru would no doubt loan the Government soles against the cotton, but this plan would not supply the foreign exchange needed and it would notably weaken the liquid position of the banks.

Four.

Four. The flotation of an internal loan would be a third alternative, but this would also fail to supply needed foreign exchange and it would not be looked upon with favor.

Five. It is admitted by the Minister of Finance that a remedy might be effected through permitting the sol to seek its own level and thus curtailing imports. He states that the maintenance of the present level of commercial and industrial activity is his objective and that no exchange control measures would be adopted as long as this is possible. It is, nevertheless, difficult to reconcile these statements with actual developments, that is, the gold purchase plan mentioned in paragraph two and the statement of the Minister that 80 to 90 percent of all foreign exchange entering Peru is to be turned over, beginning within the next few days, to the Central Reserve Bank at the current rate of exchange, for subsequent allocation by the Bank.

Six. I understand through a reliable source, since my conversation with the Minister of Finance, that the Minister is thinking in terms of a two to three million dollar credit instead of the five million dollar credit he appeared to be contemplating. I believe also that the Finance Minister would endeavor to find funds to meet

Peru's

Peru's participation in the Inter-American Bank if he could see how that participation would result in some solution of the exchange problem.

Seven. About 60,000,000 soles in foreign exchange was provided by cotton exports in 1938, which, as stated in paragraph one, was about 25 percent of the total of all exchange available. If these figures were used as a basis for the credit required during the next half year about \$5,000,000 would be needed, as originally contemplated by the Minister. I should recommend, however, that if a credit is to be granted, an initial amount of from \$1,000,000 to \$2,000,000 be made available on a trial basis, further credits to be dependent upon the plan's successful operation.

Eight. I have been promised additional information from the Peruvian Government respecting a long-term cooperative program, but have not as yet received these data. Long and careful study will apparently be required on this matter. In the minds of the Peruvians, moreover, there is a distinct separation between the question of [this immediate] credit and the long-term credit. Urgent attention is considered to be required on the first, whereas the second is still in a nebulous state, as indicated in the memorandum of the Minister of Finance enclosed with my despatch no. 109 of May 23, 1940.

Nine. It seems almost certain from statements of the Minister

Minister of Finance that the Peruvian Government has no intention of making even a temporary arrangement with respect to the dollar debt in the near future and I understand that no instructions in the matter have been given to Beltrán. I was told today by the Minister of Finance that there is no need to give serious thought to the dollar debt until Peru is able to increase its exports to the United States by an appreciable amount, and he said that not even the sum of three and one-half million soles, included in the current budget, for use in connection with the dollar debt could be devoted to that purpose during the present emergency. If, however, Export-Import Bank credits are to be contingent on a debt arrangement, I would be willing to request the Minister to reconsider this position despite the preceding statements. In this connection, it should be recalled that the bondholders rejected an offer made by Peru when the country was somewhat more prosperous, and I do not believe that an offer made now would be any better.

Ten. While it would be difficult to justify assistance to Peru upon sound economic grounds based upon past and present performance, I am convinced that Peru needs such assistance. Such help as may be extended, therefore, must be based on considerations of policy. It is possible  
that

18-E

that if we do not extend assistance, Peru may be forced to turn elsewhere and that our own, as well as Peru's, interests may be detrimentally affected by the terms and methods that it might be necessary for Peru to accept.

Eleven. I am sending a despatch, no. 130, by air mail on Monday which contains a full report of this matter.

NORWEB

(RA:RFW:GMB)

RDS

GRAY

Paris

Dated June 1, 1940

Rec'd 11:23 a.m.

Secretary of State,  
Washington.

990, June 1, 1 p.m.

(SECTION ONE)

FOR THE TREASURY.

The principal French banks, the French branches of American and British banking establishments and 16 firms dealing in precious metals have been authorized by the Bank of France to purchase on its behalf the gold holdings surrendered to the bank in accordance with the decree of May 30 (please see Embassy's telegram number 796, May 21, 7 p.m.). Confidential instructions issued to these "approved intermediaries" forbid them to charge any commission on such purchases. Full weight gold coins are to be bought at their face value and forwarded to the Bordeaux branch of the Bank of France. Under weight gold coins, bars, ingots, etc., must be sent to the Chancelier (Department de Puy-de-Dome) branch of the Bank. Full payment will not be made until such gold has been assayed.

BULLITT

CF7

MP

GRAY

Paris

Dated June 1, 1940

Rec'd. 10:55 a. m.

Secretary of State,  
Washington

990, June 1, 1 p. m. (SECTION TWO)

The Paris banks have been ordered to remain open this afternoon for the third successive Saturday. They will be closed, however, tomorrow.

An arrete of the Ministry of Finance published in today's Journal Official fixes the maximum amount of French or colonial currency which a traveler may bring into France at 5,000 francs. Heretofore the limit was 10,000 francs. The limit for foreign coins and bank notes remains unchanged at the equivalent of 10,000 francs. However, the importation of Belgian, of Congo, Luxembourg, Dutch and Dutch colonial banknotes and coins is henceforth forbidden unless a special authorization has been granted by the foreign exchange office.

A decree also published today raises the customs duty on imported and domestically refined gasoline by 80 francs per hectolitre and that on "other gas, oils" by 68 francs per hundred kilos. Dealers and refineries possessing



MT

PLAIN

22

Stockholm

Dated June 1, 1940

Rec'd 7:35 p.m.

SECRETARY OF STATE,  
Washington.

580, first.

In millions crowns Minister of Finance has asked present Riksdag for increased individual and corporate income taxes to bring 90 and states that equal sum expected from consumption taxes to be recommended at special session the Riksdag later this month. Current deficit approximately 1000 budget balancing fund 165 net deficit 850. Budget for 1940-41 expected show expenditures 2901 of this defense 1464 including army 500 navy 150 air 50 plus 460 general and current. Of this 87 covered by reserve 1377 by imperial and supplementary budgets. Income on present basis 1784 hence necessity added taxes. Danish National Bank and Swedish Riksbank reached temporary arrangement for urgent payments pending definite agreement. Declaration required by government June 3 covering stocks of additional metals including copper tin lead zinc mercury.

INFORM COMMERCE.

STERLING

NPL

Treasury Department 23  
Division of Monetary Research

Date.....19

To: Secretary Morgenthau

From: H. D. White

This report from Nicholson is  
worth your reading.

MR. WHITE  
Branch 2058 - Room 210

## UNITED STATES TREASURY DEPARTMENT

OFFICE OF  
THE ATTACHE  
SHANGHAI

Office of the Secretary

June 1, 1940

24

CONFIDENTIAL MEMORANDUM

GENERAL SITUATION IN JAPAN AS OF MAY 20, 1940

I. The general situation in Japan has not changed materially during the past few months.

II. Economic situation.

The strain on the economic situation of Japan still shows no signs of abating. This fact has to be kept in mind in order to understand the concern of Japan for the maintenance of the status quo in the Netherland's East Indies, a concern which is based on two main facts:

1. The possibility of an US embargo which would compel the Japanese to cover their requirements in raw-materials in countries other than the US; this long-range view taken by the Japanese has already had the effect of producing a steady increase in Japanese trade with the Netherland's East Indies within the last six months. (Jap. imports from NEI increased 50% during last six months. Exports to NEI increased approximately 40% since October, 1939).

2. The fact, that in spite of serious endeavours the Jap. have not been able to reach a satisfactory agreement with Russia over the problem of the Sachalin oil-wells. The Jap. therefore, will be more dependent than ever on the oil-supply from Borneo, and there is little doubt, that the pressure Japan is exerting over the problem of the maintenance of the status quo in the NEI, should serve the purpose of negotiating a favorable trade-agreement with the NEI.

The economic situation in the occupied areas of China has not undergone any changes worth mentioning, in the last few weeks. Sharp fluctuations in the intensity of rail and water borne traffic continue to take place. It would, furthermore, not be correct to view the considerable increase in imports in recent months as a symptom of a gradual return to more healthy conditions in the economic structure of the occupied areas. In

fact, the rise in imports must largely be attributed to inflationary tendencies and speculation. Furthermore, the fact has to be noted, that the slight easing in the handling of Japanese-imposed restrictions directed against foreign trade-activities in the occupied areas, which became noticeable in February-March, has once more given way to sterner methods of repression, in the last few weeks.

Preparatory measures for the establishment of a Central Note Bank of the Nanking Puppet Regime are being intensified.

Regarding the economic situation in Manchuria, reliable reports received indicate a serious depression due to the continuation of the war in China and the outbreak of hostilities in Europe. The economic development of the country which was in full swing prior to the outbreak of the war, has not only been brought to a complete standstill, but everywhere lack of organization, inefficiency in administration and halfheartedness in the execution of measures due to the general lack of funds, are making themselves increasingly felt. As a consequence of last year's drought in Japan and the ensuing water-scarcity which seriously hampered power-plants, thus immobilizing chemical industries, it became necessary to use oil cakes (made from soya-beans) instead of artificial fertilizers, in order to secure the next harvest. Thus Manchuria was deprived of her main export-article, a fact which considerably increased existing financial difficulties.

Germany has repeatedly tried, in vain, to obtain fulfilment of the soya bean agreement, concluded with Manchuria. Further German circles are complaining about lack of Jap. collaboration in facilitating the transit of German goods from and to Germany, through Manchuria. Middle of this month (May, 1940), for example, the German Chamber of Commerce in Shanghai sent an urgent wire to Berlin, complaining about Japanese interference with German transit goods through Manchuria, and requested energetic diplomatic representations in Tokio. The fact is stressed

in German quarters, that a sufficient amount of rolling stock is available on the Russian sector of the Trans-Siberian Railway, and that transport-facilities cannot be fully made use of because of interference with goods-traffic on the Japanese sector.

### III. Political situation in Japan.

Fascist sections within and without the political parties, and radical tendencies within the army are becoming more and more unpopular with the nation in general. The process of a revitalization of the political parties and parliamentary life in general is making further headway under the guidance and influence of the Prime Minister. The interesting fact has to be mentioned, that of lately the great trusts Mitsui, Mitsubishi etc. are once more enjoying greater freedom of movement and greater influence. Gen. Abe's mission to Nanking is backed by the wish of the entire Japanese nation to reach a settlement of the "China Incident" at the earliest possible moment. Discontent with the present labile state of affairs is increasing in strength in all sections of the community. War-weariness is ever-growing, and the wish to obtain a satisfactory explanation, as to the actual results of the military expedition into China and the ensuing economic privations and restrictions at home, is making itself increasingly felt. It is natural that this evolution does not satisfy the fascist groups in Japan and certain sections of the army-officers corps. They hold the view that in spite of economic difficulties, Japan should make a last and determined effort to expand her empire to the South. They argue that the development of the European situation, the weakening of the British position, and the military unpreparedness of the US offer Japan her last chance to reach her expansionist aims, and they fear that the Yonai government is drifting further on the path of gradual compromise and appeasement. Certain signs, therefore, are on the increase which indicate the possibility of a revolutionary movement in Japan, with the aim of a strong political concentration, and an aggressive and uncompromising foreign

policy, mainly directed against Great Britain, possibly coupled with an attempt to enter into direct peace-negotiations with Chungking. These tendencies are, naturally, finding strong support among pro-German circles.

IV. Foreign policies.

Here the political situation is more than ever influenced by the sequence of events on the European stage. No change seems to have taken place in Japan's determination to remain aloof of the European conflict, at least as long as the final outcome is still in doubt. Weakened by three years war in China, economically exhausted and with a seriously reduced standard of living, Japan is fully aware of the difficulties, into which a spread of European hostilities to the Far East would plunge the country. The Japanese fully realizes that, if Japan in an eventual attempt to expand toward the south, had to face nothing but the USA, whose military preparations are not as advanced as those of the Japanese, they, after initial military advantages, would have to face the full strength and resources of a country whose military potential is vastly superior to the potential of Japan, and that final victory would undoubtedly go to the US. Even neglecting the problem of the US, and it's implications, it must be assumed that Japan is going to continue her "wait and see" policy in regard to the British Empire unless, of course, England suffers a decisive defeat in Europe. In the latter case, it is safe to assume, that Jap. would try to expand in East and South Asia, in order to be on the spot earlier than certain victors in Europe, whose installation in the British positions, east of Colombo, Tokio would view with considerable concern. In order to have her hands free for military operations which would become necessary under such circumstances, Tokio would probably try to come to some sort of arrangement with Chungking.

Regarding the problem of the NEI, as it appears at the present moment, it can safely be assumed that, for the time being, Japan will make no

attempts to change the status quo by force, unless other powers take steps, which would threaten the economic interests of Japan. The present concentration of Jap. troop-transports in the Yangtze Estuary, which, as regards numbers and tonnage, remains one of concentrations in the autumn 1937, is probably not connected with military operations in China. It is more likely that these bottoms are kept in readiness for the transportation of troops from China to possible new war-areas, in case the Japanese consider their economic interests in the NEI threatened by actions of other powers. Germany is trying to incite Japan to take active steps in the NEI, but it is realized in Berlin that Japan, because of general war-weariness and the tense situation in China is at present probably neither willing nor capable of challenging the British Empire. In any event, the hope is cherished in Berlin, that due to the unstable situation in the Far East, the US will be compelled to retain her fleet in Pacific waters, thus seriously reducing the possibility of America armed intervention in Europe.

At the present time there is great diplomatic activity in German circles in Shanghai. The Charge d'affaires has left for Peking, where he is to meet the German ambassador to Tokio, Gen. Ott, Councillor of State Dr. Holfferich, Dr. Richter of the German Ministry of Economics and several journalists, all about to depart for Tokio. Germany seems to have taken up once more her former scheme of trying to combine Germany, Russia, Japan and China into a great power-alliance. In order to promote this aim, Germany is rumored to have offered or to be ready to offer once more her mediation in the Sino-Jap war. The German minimum aim seems to be to influence as far as possible Jap foreign policy towards a diplomatic rapprochement with the Rome-Berlin axis powers. In these schemes, Germany is aided by Fascist circles in Japan and certain army factions.

The fact that Germany is once more paying great attention to the development of the Far Eastern situation, is emphasized by confidential

advises to great German business firms in China. German firms are urged not to consider the present raw material transportation line via Siberia as merely an emergency measure. The Trans-Siberian Railroad and possibly a new line via Urumtschi-Lanchow (the Turksib R. R. is supposed to be continued to Lanchow) will remain one of Germany's main supply lines even after the termination of the European war, these German circles assert. It will be important to watch the Russian reaction to this scheme. Furthermore, Germany seems not to exclude the possibility, that the war will continue in a latent form even after a decisive victory in France, possibly kept in being by the British Dominions under the leadership of the US. After the Italian conquest of the Mediterranean, and German, Russian and Italian partition of the Balkans, it would be of primary importance for this group of powers, to secure communications with large raw material producing areas. Whether Germany is seriously thinking that this dream will ever materialize, which finds many obstacles in its way (Russo-Japanese and Sino-Japanese antagonism) or whether she will be satisfied eventually with a partial solution, cannot be ascertained at the present moment.

Apparently there has been no important change in Anglo-Japanese and American-Japanese relations. The fact remains, however, that both the pro-British and pro-American groups in Japan continue to wield great influence, and that it would be extremely difficult to push Japan into a war with the USA or Great Britain. However, should the Japanese consider themselves provoked or threatened, a Jap. surprise attack would come within the limits of possibility. Furthermore, it is possible that, in the event of a sudden breakdown of the Allies in Europe, the Jap Government would take, or would be forced by Fascist circles, to take, action.

Russo-Jap relations are cool and reserved. Several minor border incidents have taken place, without producing, however, a break in general

relations. Considerable troop-movements have been reported, during the month of April, on the Trans-Siberian Railway, and artillery units have been reported especially noticeable. Infantry-units which had taken part in the Finnish Campaign, were also identified. Whether these movements were just routine spring-replacements, or whether reinforcements of existing Far Eastern garrison-forces have taken place, could not be ascertained.

In general, traffic on the Trans-Siberian R. R. has increased considerably. Trains are running in intervals of 25-30 minutes in both directions. Rolling stock is sufficiently available and in good working condition. Two kinds of trucks are frequently seen - 20 and 40 to waggons, several new oil-tank trains were especially noticeable each waggon with a capacity of between 50 and 60 of a category which can not be used on European lines because of unfavorable terrain conditions. With regards the problem of Tokio-Nanking relations, the Jap Government by sending Gen. Abe to Nanking, has clearly indicated its will to reach a puppet peace settlement with China. It has been mentioned above that the whole Jap people are backing Gen. Abe's mission, expecting positive results within a not too distant future.

Negotiations at Nanking in their early stages did not take a favorable turn, and soon the Japs had to realize that they would have to climb down in order to meet Chinese demands, aiming at equality in rights, to prevent a complete breakdown in the parleys.

The problem of the establishment of mixed Sino-Jap companies was tackled first. In the end, the Japs had to concede the quota, which used to be in force before the outbreak of Sino-Jap hostilities (maximum share of Jap. capital 49% minimum share of Chinese capital 51%). But there is of course little doubt that this principle will not be observed to the letter in practical life.

The next problem was the restoration of railway lines to China control. In the beginning the Japs asked an exorbitant price for the return of the lines, but met with an energetic rebuke from the Chinese side.

Here, too, the Japs had to realize that at least in principle they would have to concede to China sovereign rights. Both sides in Nanking agree that Jap troops would have to be retained in occupied areas of China for quite some time. The preservation of law and order and the fight against the querillas will be the tasks assigned to Wang Ching-wei's newly constituted and Jap trained pacification troops. But in spite of that there is no doubt that Japan will not be able to reduce her military expenses in China in the near future.

Wang Ching-wei's future depends on two main factors: (1) Are the Japs willing to support Wang Ching-wei substantially? (2) Will Wang Ching-wei be successful in restoring law and order in the occupied areas, at least to a certain extent, in order to improve the economic situation and raise the standard of living of the population.

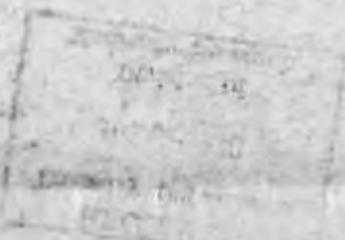
Thus nothing but the economic sector is left to the Japs where they can possibly reach some sort of success, i.e., preferential duties for their exports to China. Slowly but surely the Japs are beginning to realize that the conquest of a country does not mean that this country's economic structure can automatically be taken over, but that forceful conquest implies a complete disorganization of economic life and the stand-still of private initiative; and that it is very difficult to reorganize a broken down economic structure, especially if memories of so many unpleasant incidents during the process of military occupation are psychological obstacles to the process of reconstruction.

#### V. Military situation.

Apart from the great concentration of empty military transportation units in the Yangtze Estuary there is nothing important to report. This concentration does not seem to be directly connected with the military situation in China, but more or less intended as a precautionary measure in case of an extension of European hostilities to the Far East. Shortly before the European war started it was already reported, that in case the

Japs would have to fight on new fronts, they would consider a shortening of the front in China by taking back their troops into a line running roughly from Taiyuan in the northwest via Kaifeng-Pengpu-Wuhu to Hangchow in the southwest.

*M. R. Nielsen*  
T.A.



41 01 11 21 14

RECEIVED  
JUL 21 1941

JT

GRAY

MILAN

Dated June 1, 1940

Rec'd 1:50 p.m.

SECRETARY OF STATE  
WASHINGTON, D.C.

00 0000 7 JUN 04 1940

SECRETARY OF STATE  
WASHINGTON, D.C.

00 0000 7 JUN 04 1940

Secretary of State,  
Washington.

50, June 1, 3 p.m.

Today's market index 228.87. Volume 52,875.

Prices variable but tendency generally firmer in  
sluggish trading.

SKOLES

CSB

Extract from personal letter written on  
June 2, 1940 by Governor Rooth of the  
Sveriges Riksbank to Mr. Cochran.

"Since I wrote you my last letter first Norway and Denmark and then Holland and Belgium have been attacked. We are now wondering how many days it will take for Mussolini to decide whether he shall join or not.

The British help to Norway was fairly poor as the territorial army was not trained. The Germans have at present probably some 150,000 men in Norway with a lot of tanks, artillery etc. Part of them may be intended for a jump on England, but most of them are along the Swedish frontier. Although it is not officially said the Swedish army is in reality mobilized. We never dreamt of defending our frontier against Norway but we are now doing our best for defending it.

The south-western, southern and eastern water frontiers are now also defended and a German attempt would not be a walk-over. My impression is that the Germans at present have so much to do in France that they are not likely to attack us. But you never can tell what ideas may come into the head of Hitler. The main risk for us at present is that German forces at Narvik have been driven towards the Swedish frontier. Their supplies are probably not sufficient for more than a fairly short time.

Our friend Rygg left Oslo with the Government. The intention was that he should follow the Government north, but when the Germans bombed Elverum and Nybergssund he lost the contact and returned to Oslo. Thorkildsen is also at Oslo. The Norwegian Government has appointed a new Board. That Board started its work at Molde but had to move from there and is at present in or in the neighbourhood of a small town called Tromsø in the very north. I enclose a memorandum with the names of the present members of the Board. The actual Governor Dr. Raestad is a lawyer and economist. He was talked about a couple of years ago as successor of Rygg. On the Board is also one of the best Norwegian economists, Professor Keilhau. For the Norwegian Government it has been a great drawback that they did not get their books with them when flying from Oslo.

When Mr. Torp, the Norwegian Minister of Finance, was here a couple of weeks ago he told me that he had no details about the Norwegian loans abroad, but I gave him such about the loans in Sweden and presented him with a copy of a Norwegian book on Norwegian bonds and shares. Norges Bank at Oslo has no foreign assets at its disposal. They are all in the hands of the Bank in the north. About 5/6 of the Norwegian mercantile marine was outside Norway and the Baltic and is now producing sterling for the Norwegian Government.

- 2 -

The City of Oslo has a loan with coupons on the 1st May. That loan was not paid. The interest of two loans issued in Sweden by Norges Kommunal bank with guarantee of the Norwegian Government due yesterday was paid. They hope to be able to meet the obligations of Government bonds and of bonds guaranteed by the Government.

Norway has sufficient money in England for meeting interest and amortization on the Norwegian loans in England. I believe that the American funds are sufficient for the regular service on the American loans and I hope that the Government will permit Norway and Denmark to use their assets in America for the service on the loans. I understand that Harriman Ripley & Co. in New York which issued a couple of the Norwegian dollar loans has been in contact with your Government.

We are in contact with the Norwegian authorities in Oslo and will fairly soon begin negotiations with them regarding a trade treaty and a clearing arrangement. It is of importance not only for Norway and the Norwegian Government in the north but also for the neighbours of Norway that the people in the occupied part feel and think as Norwegians and not as Nazis. It is therefore essential that the economic life inside the occupied part can continue. I can mention that the Germans will buy products from the Norwegian wood and wood pulp industries for about 110 million Norwegian kroner.

The northern part of Norway is carrying on its business on a free basis. Thorhildsen from Oslo was here some days ago. He and Ryge are in good health although I have been told that Ryge has got fairly much older after the happenings of the last few months.

We are negotiating a trade treaty and clearing agreement with Denmark. Pending that clearing agreement we have made an arrangement with Danmarks National bank that Swedish payments to Denmark will be made to an intermediary account here and Danish payments to Sweden will be made to an account in Copenhagen. The payments in Copenhagen are calculated on a Swedish kronor basis and are paid out over the account in Stockholm.

I have not seen Ryti for a long time. He is of course frightfully busy with all the work after the war and all the military preparations for a new defence, if necessary. Engel who is now in charge of Finland's Bank was in Stockholm a couple of weeks ago for some financial negotiations.

I hope that you have got the translation of the memorandum which we sent to the Government regarding our economic policy. The Minister of Finance approved of it and so did Parliament. The question is, however, whether the authorities will draw the conclusions thereof and reduce expenses etc. The Minister of Finance issued the other day a Memorandum with instructions for all municipalities and towns regarding loans and declared that they should not get permission to issue loans unless their expenses were heavily cut down.

- 3 -

The political situation has led us to consider a lot of precautionary measures. One of them is the transfer of some of our assets with the Federal Reserve Bank to the names of Mr. Bostrom and Mr. Eriksson. I suppose that you have been informed hereof as we sent a cable through the American legation and the State Department and asked Mr. Bostrom to take contact with the Treasury in order to prevent an American embargo on these assets in case something should happen.

From the Norwegian experience we have learnt that we must have some rules for appointing members of the Board of Sveriges Riksbank in case of an invasion. I enclose a copy of the law which was passed the other day. We are handing over some copies to the American legation here. I am in close contact with Mr. Greene and I also see Mr. Sterling from time to time."

Law

"regarding the functioning under extraordinary circumstances of the Board of Sveriges Riksbank and the Board of Riksgaldskontoret /The National Debt Office/.

---

If Sweden or part thereof has become occupied by a foreign power, the Board of Sveriges Riksbank may function only at meetings held within the unoccupied area or outside the country. Meetings may be held only at a place where the Board can confer with a representative of the King in Council. 1/

At least three members of the Board must be present at such meetings. If a quorum of three cannot be obtained, the King in Council shall appoint so many new members of the Board as are necessary for obtaining such a quorum until those previously elected by Parliament can join the Board or until new members have been elected by Parliament.

The above regulations refer also to the Board of Riksgaldskontoret /The National Debt Office/.

This law is valid until the end of June, 1941.

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When passing this law Parliament empowered the King in Council to negotiate loans abroad on behalf of the State, if Sweden is in a state of war.

This authorization is also valid until the end of June, 1941.

---

Article 76 of the constitutional law prescribes that the King in Council may not raise loans on behalf of the State except with the consent of Parliament. If Parliament does not empower the King in Council to raise such loans, the right to do so is in the hands of the Board of the National Debt Office which is elected by Parliament.

Stockholm, 30th May, 1940.

SVERIGES RIKSBANK

1/ Normally the Minister of Finance is the representative of the King in Council."

2211 THIRTIETH STREET  
WASHINGTON, D. C.

Sunday  
6-2-40

38

Hull called me 10 o'clock  
had received cable from  
Bullitt saying things  
look very bad. How  
much gold did I have  
I said I did not know  
exactly. What did I  
think of "giving Bullitt  
a nudge to have French  
try and get gold out of  
"Cincinnati" I said

all to the good. To  
 suggest to Bullitt  
 and Kennedy that  
 France and England  
 each put their gold  
 on respective battlefields  
 and send it to  
 Halifax.

(This is not  
 dated. It may  
 have been May 1945)

Wm L

WASHINGTON, D.C.,  
JUNE 2, 1940

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D.C.

SUBJECT: MACHINE TOOL COORDINATING  
COMMITTEE

My dear Mr. Secretary:

The informal committee representing the Machine Tool Committee, the Army and the Navy which met in your office on Monday, May 27th, has held further meetings and submit the following:

1. The machine tool manufacturers will cooperate with the Government to the fullest extent and promise 100% support in supplying machine tools as may be required to carry out the National Defense Program.
2. A Defense Committee of the Machine Tool Industry of 15 leading executives representing important manufacturing plants in the industry and located over a broad area geographically has been appointed as follows:

Defense Committee of the  
National Machine Tool Builders' Association.

Clayton R. Burt ----- Chairman  
President: Pratt & Whitney Division,  
Niles Bement Pont Co.,  
Hartford, Connecticut.

Henry Buker ----- Vice President  
Brown & Sharpe Mfg. Co.,  
Providence, Rhode Island

F. H. Chapin ----- President  
National Acme Co.,  
Cleveland, Ohio

Howard W. Dunbar ----- Vice President  
The Norton Co.,  
Worcester, Massachusetts

Ralph E. Flanders ----- President  
Jones and Lamson Machine Co.,  
Springfield, Vermont

James Gleason ----- President  
Gleason Works,  
Rochester, New York

Charles J. Stilwell ----- President  
Warner & Swasey Co.,  
Cleveland, Ohio

Fred V. Geier ----- President  
Cincinnati Milling Machine Co.,  
Cincinnati, Ohio

Norman D. MacLeod ----- President  
Abrasive Machine Tool Co.,  
East Providence, Rhode Island

Robert M. Gaylord ----- President  
Ingersoll Milling Machine Co.,  
Rockford, Illinois

Phil Huber ----- President  
Excello Corporation,  
Detroit, Michigan

E. A. Muller ----- President  
King Machine Tool Co.,  
Cincinnati, Ohio

G. A. Rentschler ----- President  
General Machinery Co.,  
Hamilton, Ohio

-3-

Joseph L. Trecker -----	President
Kearney & Trecker Corp., Milwaukee, Wisconsin	
W. E. Whipp -----	President and General Manager
Monarch Machine Tool Co., Sidney, Ohio	
J. E. Lovely -----	Ex Officio, President
National Machine Tool Builder's Association Vice President and Chief Engineer, Jones and Lamson Machine Co., Springfield, Vermont	
Tell Berna -----	Secretary of the Committee
General Manager, The National Machine Tool Builder's Association, Cleveland, Ohio	

3. The machine tool manufacturers agree that they will undertake to make deliveries of machine tools in time to meet the requirements of the Government's program.
- a. By expanding the present working forces.
  - b. By sub-letting parts and, if necessary, complete machines, to various factories not engaged in important Government work and who have facilities and ability to produce the quality of work required.
4. A very important factor in determining deliveries of machine tools will be the allocation to foreign countries. This, we assume, will be controlled by the Machine Tool Coordinating Committee, hereinafter referred to.

5. The substitution of simplified machines instead of the present standard type of machines will greatly facilitate deliveries.
6. In the event that a large number of machine tools are required immediately, it will be necessary to commandeer many machine tools that are now on order for foreign countries.
7. It is recommended that a Machine Tool Coordinating Committee be set up as follows:
  - a. Chairman ----- Mr. Wm. S. Knudsen
  - b. Vice-Chairman ----- to be selected by Mr. Wm. S. Knudsen
  - c. Two representatives from the Defense Committee of the Machine Tool Industry: Mr. Ralph E. Flanders  
Mr. Howard W. Dunbar
  - d. Two representatives from the Navy --  
Captain D. Almy  
Lt. Commander E.R. Henning
  - e. Two representatives from the Army --  
Colonel H. K. Rutherford,  
Army & Navy Munitions Board  
  
Major S. E. Reimel,  
Ordnance Department
  - f. Other representatives to be added from time to time, if it is found necessary.
8. A list of names is suggested who are qualified for Vice-Chairman and no doubt there are many others which could be suggested. List attached hereto.

9. The Chairman and Vice-Chairman should be neutrals representing other interests than those represented directly on the Machine Tool Coordinating Committee.
10. It is recommended that the Machine Tool Coordinating Committee should be organized at once and that it should be empowered with the duties of determining the specific requirements of the Army, Navy, civilian and foreign customers, establishing priorities for the guidance of the machine tool industry in filling these requirements and in considering the creation of additional capacity, if and when it is found necessary.
11. Since no authority exists for the enforcement of priorities at the present time, it is vital that cooperative action of all parties will be necessary if priorities are to be effective. The establishment of a Machine Tool Coordinating Committee as outlined, to perform the functions mentioned, is believed to offer the best solution to the machine tool problem.
12. Further meetings will be held in the near future at which time the Army and Navy will be prepared to submit details covering various lists of sizes, kinds and types of machines that will be required. This information is essential before any program can be determined regarding deliveries.

13. The Machine Tool Industry plans to put into effect at once a policy of accepting both foreign and domestic orders for machine tools subject to priorities that may be set up by the United States Government. This is for the purpose of keeping our industry in position to meet most effectively the requirements of the United States Government when those requirements are defined.
  
14. We will later submit recommendations on what can be done to assist the industry by improving the labor supply.

Respectfully submitted,

*Clayton R. Burt*  
Chairman, Defense Committee

*E. X. Army* Capt. U.S. Navy  
Bureau of Shore Establishments, U.S.N.

*D. W. Keethup* Col U.S. Army  
Director, Procurement Planning,  
Army & Navy Munitions Board.

SUGGESTIONS FOR VICE CHAIRMAN  
MACHINE TOOL COORDINATING COMMITTEE

Louis Ruthenberg, President  
The Servel Corporation  
Evansville, Indiana

James Knowlson, Chairman of the Board  
Stewart Warner Corp.,  
Chicago, Illinois

Clarence Stoll, President  
Western Electric Co.,  
New York, N.Y.

Howard Coonley, President  
Walworth Co.,  
New York, N.Y.

S. C. Heacock, President  
The Caterpillar Corp.,  
Peoria, Illinois

Sidney McAllister, Vice President  
International Harvester Corp.,  
Chicago, Illinois

Harold Vance, Vice President  
Studebaker Corp.,  
South Bend, Indiana

Charles A. Cheyney, Chief Engineer  
Buick Motor Division  
General Motors Corp.,  
Flint, Michigan

## PARAPHRASE OF TELEGRAM RECEIVED

Paris

Secretary of State,

Washington.

1014, June 3, 7 p.m.

SECRET AND PERSONAL FOR SECRETARY MORGENTHAU AND  
THE PRESIDENT.

Sub-machine guns (Thompson) were asked for urgently in my telegram No. 916 of May 28. Hourly the need becomes more pressing. They are needed here within ten days at the latest and I want to know if 5,000 could not be taken from the Navy stocks, or 1,000 at least, and sent to Paris in the speediest way possible. The urgency of this is real.

BULLITT

RECEIVED

JUN 4 11 11 AM '44

TO THE SECRETARY OF STATE  
FROM THE SECRETARY OF THE ARMY  
JUN 3 1944

Airplane Engines Delivered in January 1939 and 1940; Estimated Deliveries in January 1941.

Company	Actual				Estimated	
	January 1939		January 1940		January 1941	
	Number of: engines	Horsepower represented:	Number of: engines	Horsepower represented:	Number of: engines	Horsepower represented:
Wright Aeronautical Corporation	228	208,000	381	332,000	853	1,199,000
Pratt & Whitney Aircraft	182	157,000	379	390,000	744	828,000
Allison Engineering Company	<u>5</u>	<u>5,750</u>	<u>10</u>	<u>10,900</u>	<u>450</u>	<u>517,500</u>
Total	<u>415</u>	<u>370,750</u>	<u>770</u>	<u>732,900</u>	<u>2,047</u>	<u>2,544,500</u>
January 1939 =100 percent	100%	100%	186%	198%	493%	686%
January 1940 =100 percent			100%	100%	266%	347%

Office of the Secretary of the Treasury, Division of Research and Statistics

June 3, 1940.

Source: Reports Received from Individual Companies.

Airplane Engines Delivered in May 1940 and Estimated Deliveries in January 1941

Company	Actual		Estimated	
	May 1940		January 1941	
	Number of engines	Horsepower represented	Number of engines	Horsepower represented
Wright Aeronautical Corporation	432	455,405	853	1,199,000
Pratt & Whitney Aircraft	412	346,600	744	828,000
Allison Engineering Company	<u>15</u>	<u>15,000</u>	<u>450</u>	<u>517,500</u>
Total	<u>859</u>	<u>817,005</u>	<u>2,047</u>	<u>2,544,500</u>
May 1940 =100 percent	100%	100%	238%	311%

Office of the Secretary of the Treasury, Division of Research and Statistics

June 3, 1940.

Source: Reports Received from Individual Companies.

CAPITAL COMMITMENTS OF ALLIED GOVERNMENTS FOR EXPANSION OF PLANT CAPACITY ONLY

Engines: \$39,605,000

Equivalent to a monthly production of  
1350 engines (about 1200 horsepower)

Airplane Frames: \$ 1,565,000

Equivalent to a monthly production of  
70 airplane frames (15 Pursuit; 25 Two-  
Engine Pursuits; 30 Bombers)

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Office of the Secretary of the Treasury,  
Division of Research and Statistics.

June 3, 1940.

Source: Anglo-French Purchasing Board.

CONFIDENTIAL

June 3, 1940

To: The Secretary

From: Mr. Young

Re: Principal requests made to the Secretary of the Treasury by the Anglo-French Purchasing Board since April 18, 1940.

<u>Date of request</u>	<u>Request</u>	<u>Disposition</u>
April 18, 1940	Release of technical information by duPont for building Canadian munitions plant	Refused 4/18 Granted 5/22
	Purchase of ammonia oxidation machinery owned by Army	Refused
	Release of United States price for certain military planes	Compromised
	Addition of 5 alloys to the strategic list of raw materials	Refused
	Use of clauses limiting re-export of tin and rubber	Pending
	Purchase of surplus tungsten from China by United States	Granted
April 25, 1940	Request for release of 2,500,000 pounds of smokeless powder capacity	Compromised
April 30, 1940	Freedom of inspection in steel plants for French	Compromised

- 2 -

<u>Date of request</u>	<u>Request</u>	<u>Disposition</u>
April 30, 1940	500 to 600 Pratt & Whitney engines under order for the Army to be released for French Bloch bombers	Denied
May 8, 1940	Release of specifications for medium size tanks without order for large number	Denied
May 11, 1940	Release of Colt capacity by Army to make machine guns for Allies	Compromised
May 15, 1940	Release of commercial transport planes, commercial planes on order and privately owned planes	Pending
May 21, 1940	Release of 5 Allison and 6 Pratt & Whitney engines under order for the Army	Granted
	Securing priorities for 270 pursuit planes and 380 bombers now on order for United States services	Denied
	Securing priorities on 35 transport planes on order for Air Lines	Pending
	Release of 144 dive bombers now held in stock by Army and Navy	Denied
	Release of any army stocks or ordnance supplies, including anti-aircraft and anti-tank guns, light machine guns, automatic rifles, automatic pistols, field guns, mortars together with ammunition	Pending
	Release of spare ordnance equipment, including miscellaneous shells, spare barrels, search lights, sound locators, tank parts, brass rods, spare steel	Pending

<u>Date of request</u>	<u>Request</u>	<u>Disposition</u>
May 21, 1940	Release of machine gun powder cannon powder, TNT, and nitro- cellulose	Pending
	Release of manufacturing capa- city for aluminum, magnesium, duralumin, low voltage generators and binoculars	Pending
May 29, 1940	Release of certain Navy Destroy- ers for the French	Denied
	Release of as many speed boats under Navy contract as possible	Granted
	Release of rifle powder capacity under contract United States services by duPont and Hercules	Pending
	Securing of priority or releas- ing of capacity for American type medium size tanks, various anti-aircraft guns and various anti-tank guns as well as Allied type heavy tanks, anti-aircraft guns, aircraft bombs, and small arms ammunition	Pending
	Release of maximum amount of TNT possible by American manu- facturers under Army and Navy contracts	Pending
	Release of 125 tons monthly of nitro-cellulose under con- tract for Army by Hercules	Pending
	Release of spare powder manu- facturing equipment held by Army for new Allied powder plant at Memphis	Pending
	Release of 500 Harvard Trainers for Canada from North American under contract for United States	Pending
	Approval for purchase of 2000 Jacob engines for Canada	Denied

## OFFICE of the ATTORNEY GENERAL

Washington, D.C.

( 0 0 1 )

June 8, 1919.

The Honorable,

The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the material set out in two lists submitted by you.

The material listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

"That \* \* \* the Secretary of War be, and he is hereby, authorized to sell any surplus supplies including motor trucks and automobiles now owned by and in the possession of the Government for the use of the War Department to \* \* \* any corporation or individual upon such terms as may be deemed best."

The provision that such surplus supplies may be sold upon such terms as may be deemed best" undoubtedly gives the Secretary of War

power to sell without advertisement. American Sales Corporation v. United States, 32 F. (2d) 141 (D.C.A. 5th 1929); cert. denied 280 U.S. 574.

The act of July 9, 1918 (40 Stat. 850), as amended by the act of February 25, 1919 (40 Stat. 1173), limits the sales of guns and ammunition to other departments of the Government, to certain foreign states or governments, and to certain specified associations; but the act of July 11, 1919, Smith, supersedes these provisions as to supplies on hand on July 11, 1919, including guns and ammunition, if they are at any time declared to be surplus. Once such supplies are determined to be surplus, they may be sold under the act of July 11, 1919. Getzler, Wholesale Reg. v. United States, 84 Ct. Cl. 150.

As to exchange of ammunition, the act of June 1, 1926 (9. 435, 44 Stat. 680), provides:

That the Secretary of War be, and he is hereby, authorized to exchange deteriorated and unusable ammunition and components thereof for ammunition or components thereof in condition for immediate use.<sup>8</sup>

Under this statute the Secretary of War may exchange any deteriorated and unusable ammunition for other useful ammunition or components thereof without advertisement. All that is necessary to protect the Government's interest is the ascertainment of the fair value for the exchange. Fair ascertainment of fair value may be arrived at through an appraisal and the obtaining of an exchange value of not less than the appraised value. A determination thus made would not be subject to review.

Respectfully,

(Signed) Frederic M. Hall

Acting Attorney General.



TREASURY DEPARTMENT  
WASHINGTON

June 3, 1940.

MEMORANDUM FOR THE SECRETARY:

CABLE  
There are 20 carloads of copper ~~bars~~ arriving in Tampa, Florida, shipped by the Anaconda Copper Company of Hastings, N. Y., consigned to the Amtorg Trading Company, Tampa, for shipment by the S/S HYBERT to Vladivostok, Russia.

This ship is scheduled to arrive at Tampa and begin loading tomorrow (Tuesday) evening.

Basil Harris.

June 5, 1940.

MEMORANDUM FOR THE SECRETARY:

There are 20 carloads of copper <sup>CABLE</sup> ~~bars~~ arriving in Tampa, Florida, shipped by the Anaconda Copper Company of Hastings, N. Y., consigned to the Amtorg Trading Company, Tampa, for shipment by the S/S HYBERT to Vladivostok, Russia.

This ship is scheduled to arrive at Tampa and begin loading tomorrow (Tuesday) evening.

BH/hkb



## TREASURY DEPARTMENT

WASHINGTON

June 3, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian Steamship BELVEDERE, scheduled to sail from New York on June 13th for Torino, Italy, will carry 5,572 aluminum ingots.

Daniel Harris.

June 3, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian Steamship BELVEDERE, scheduled to sail from New York on June 13th for Torino, Italy, will carry 5,572 aluminum ingots.

(Signed) Basil Harris

CONFIDENTIAL

June 3, 1940

55

To: The Secretary

From: Mr. Young

I talked with Mr. Purvis on the telephone Friday night at 7:10 P.M. just prior to his conversation with you. I asked Mr. Purvis what had happened during his conference with General Marshall with respect to the securing of surplus war stocks for the use of the Allies.

Mr. Purvis was not enthusiastic about the reception he had received. He stated that he had talked with General Marshall, with General Harris, Chief of Ordnance, and with one other person but that the technical experts which he had with him were not allowed to participate in these conversations. General Marshall, evidently, had an abbreviated list of surplus war materiel which he talked over with Mr. Purvis, but which he would not allow Mr. Purvis to see.

Mr. Purvis stated further that when he talked with General Harris the latter had a very much more complete list of materiel, but that he was not allowed to see this list either or given a chance to have his technical experts go over it in order to see the materiel which would be of the greatest use or of the most immediate use to the Allies.

In addition, Mr. Purvis was disappointed because of the fact that while there seemed to be some guns available there was little or no ammunition. I might add, however, that Mr. Purvis was very grateful to General Marshall and General Harris. General Marshall had told Mr. Purvis he had a number of schemes for the transfer of these supplies and that the best of these seemed to deal with leasing the materiel to an independent broker, coupled with some arrangement whereby the Army would secure new materiel in the future.

I suggested to Mr. Purvis that he describe to you what had occurred inasmuch as his report did not seem to be in line with what I had understood would be done.

R.Y.

RE MACHINE TOOLS

June 3, 1940  
10:30 a.m.

Present: Mr. Henderson  
Col. Rutherford  
Captain Almy  
Commander Henning  
Major Soderholm  
Mr. Warhus  
Mr. Berna  
Mr. Burt  
Mr. Dunbar  
Mr. MacLeod  
Mr. Lovely  
Mr. Whipp  
Mr. Knudsen

H.M.Jr: What have you fellows done in a week?

Almy: Well, we have been conferring with the machine tool industry and in cooperation with them have drawn up a suggested organization and procedure which has been reduced to writing.

H.M.Jr: That is this thing which you sent us?

Knudsen: No, those are mine.

H.M.Jr: Yes. I wanted to give you those.

Rutherford: The industry members have that, Mr. Secretary, and will probably bring it in at eleven. I understand they are coming in at eleven.

H.M.Jr: Well, may I just make this suggestion, and Mr. Knudsen may want to ask some questions. In view of the fact that I am asking Mr. Knudsen if he will relieve me of this, I don't want his hands tied until he has had a chance to look at that suggestion, because that may go further than he wants, so if you fellows could just put the brakes on until he had a chance to read that memorandum which he hasn't, he may like it and he may not, but - I think he ought to have a chance to --

Rutherford: Yes, sir.

H.M.Jr: To sleep on it overnight and not have these fellows come in and say, "Well, this is the way we want to do it," and Mr. Knudsen may, after he has had twenty-four hours, have other ideas.

Rutherford: It is only suggestive, anyway, sir.

Knudsen: What are these requirements? Are these the requirements of the Army and the Navy?

Rutherford: They are available, but they are not in this report that the committee is bringing in.

Knudsen: The report that you are submitting is --

Rutherford: Is simply a suggested method of operation by which we can get the --

Knudsen: No actual requirements?

Rutherford: No, sir, they are not in there at all.

Knudsen: In other words, you are suggesting procedure.

Rutherford: Yes, sir. The set-up of a committee and some detail, a little bit of detail on procedure, but very little. In other words, the working organization that will solve the problem rather than attempted solution of the problem at all.

Knudsen: I see.

Almy: The idea was just to present something for your consideration, something to build on, something that could be changed.

Knudsen: Who are the members of this machine tool industry committee?

Almy: Sir?

Knudsen: Who are the members of the committee of the industry?

Henning: Here is the list of the names.

Rutherford: Two from the machine tool industry, two from Army, two from Navy, and then a neutral chairman.

Knudsen: I see.

Rutherford: And a vice chairman.

Knudsen: All right. Now, you say tool program for Army and Navy. Does that take in all contractors?

Rutherford: As far as we can visualize, sir.

Knudsen: You have estimated this --

Rutherford: We take first the direct purchases by the Army and Navy. We know quite definitely what there will be. There will be many purchases by civilian firms working for Army and Navy and those requirements we have not yet completely tabulated.

Knudsen: You will have them?

Rutherford: Yes, sir. And as the other programs develop, an airplane program, ordnance program and all that, there will be very considerable machine tool requirements that this committee will endeavor to compile, but we have not yet got it available.

Knudsen: Now, when is this first meeting to take place with your committee?

H.M.Jr: In ten minutes.

Knudsen: In ten minutes?

H.M.Jr: Yes.

Rutherford: They are waiting to meet anytime, sir.

Knudsen: I see. What you have, as I understand it now, you have made an estimate of the requirements you know of up to date, and these requirements amount to some two hundred million dollars.

Rutherford: Yes, sir.

H.M.Jr: And the industry at the moment has got a top capacity of 385.

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Rutherford: Yes, sir.

Knudsen: So you are taking quite a bit out of the private industry?

Rutherford: Yes, sir. There will be many problems as to foreign shipments, as to priorities, and domestic demands, and questions of that nature that we visualize this committee would have to handle.

Knudsen: And should the machine - does the machine tool industry know what their contractual obligations are out of the 385? Have they bound themselves to deliver a certain amount of that for the coming year?

Rutherford: Yes, sir, they --

Knudsen: If you were going to get this --

Rutherford: They will be able to give you more of detail than I am, but that is generally the correct answer.

Knudsen: Now, these tools you were talking about, they are mostly heavy tools, are they?

Rutherford: Some of them are heavy gun boring lathes, general machine tools of all types.

Knudsen: Do you go right down to small tools?

Rutherford: Yes, sir, we will get into small tools when we get finished, but as far as our arsenal requirements are concerned, we know quite definitely the small tools, as well as the large ones. Now, what the private plants will need, we still have to do considerable studying to get that worked out.

Knudsen: So the mass of it is lathes, planers, and boring mills, is that right?

Rutherford: Probably standard equipment, yes, sir.

H.W.Jr: Is there any special machinery?

Rutherford: Yes, sir, there will be some single purpose machinery.

Knudsen: Well, we call single purpose machinery, of course, special but multiple operation machinery is the worst thing to deal with in tool shops. You put three, four, five operations on one machine -- it can't be used for that piece. It is bad.

Rutherford: We have quite a bit of special, single purpose machinery or special purpose machinery that will do only the one job.

Knudsen: I see.

Rutherford: Making fuses, cell forgings, etc.

H.M.Jr: Leon, do you want to ask some questions?

Henderson: No, I wanted to get in early. I don't know how far the Munitions Board has canvassed or not, but over a period of the last two years they have been collecting quite a bit of information as to foreign controls over certain of the very essential alloys, ferro-alloys and things like that and somewhere along the line - I can talk to Mr. Knudsen about this - I think that we want to have a very frank talk as to those sources of supply. I ran into one, Mr. Knudsen, just on Saturday, that I will show you as to where they forced you on the Buick to take a different kind of product on account of price and that price is controlled in Germany, the whole set-up. There are a number of those that I think might be strategic.

H.M.Jr: Well, Leon, of these particular alloys, I have been working on them so you gentlemen can have what I have. Most of this Allies - alloys stuff we have been working with the Allies on, and I have been handling that for the President and that is nickel, tungsten, molybdenum and then all of the more lesser ones. Now, if you are interested in that, I think that we have got the best information in Washington on that material, also what the Allies are willing to do and what not. We

have just made a deal with them on tin, and this tin out of China - if you want that, Harry White has got all of it; but I think we have got the most up to date information, at least as to what has been going on in connection with the Allies, and in connection with the blockade, so if you want that, Harry is the fellow who has done it particularly for me. The International Nickel this time has stopped shipping to both Japan and Russia. In the World War twenty years ago they didn't, and that arrangement was made in this office here, and there are a lot of those things that we have done in connection with the Foreign Purchasing Commission, so if you are interested in that - we haven't advertised it, but --

Henderson: In connection with watching the materials that are going to be needed for both machine tools and production, I am going back to the source of supply and the control of it, that is, what companies, and things like that, control it. I am trying to anticipate that.

Rutherford: We have a great deal of information in our Army and Navy Munitions Board as to strategic materials. We have been studying that for many years; and while we don't know the specific companies that may control it, we know the governments or countries that enter this cartel, so we have a great deal of information on that.

Henderson: I have checked along on some of that, but as I say, we ran into some things in recent months that even astounded me, so I am going to look to see whether there are any bottle necks there.

H.M.Jr: Well, Harry can give you everything we have got.

Henderson: Yes, and I will consult with their people also.

H.M.Jr: What you are interested in is the source of supply.

Henderson: That is right. In other words, I regard the mandate to look after prices as to assist in

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the supply of the thing. We have got to know - back of each of these machine tools there is a raw material requirement that I want to anticipate if I can. It won't do any good to be fixing a price arbitrarily if the supply isn't there. We are interested in the supply. I will check along on that.

Almy: Mr. Secretary, there is one aspect I think Mr. Knudsen should understand. If the National Defense Act were invoked, we could establish priorities and take what we wanted, but the President doesn't want to do that, and we will have no authority in law to establish priorities, but our contact with industry, particularly a machine tool industry, leads us to believe that if we have an authority, pronouncement of the priority law, that we will get 100% cooperation and there will be no question of it.

Knudsen: You took the words out of my mouth.

Almy: And the companies will be relieved of their present contractual obligations. In other words, not only the machine tool builders but industry as a whole will fit their demands to whatever this committee determines must be the priority for national purposes, so it is all on a good will footing instead of a matter of law now, and this organization we are setting up starts off on that basic consideration.

Knudsen: In your dealings with the machine tool manufacturers, you are dealing with machine tool builders?

Almy: Yes.

Knudsen: Do you deal on the basis of a straight price for the article?

Almy: Absolutely.

Knudsen: In other words, you take the whole responsibility for that? There is one good thing we don't have to worry about. Have any of them asked for expansions or capital for it?

Almy: For expansion?

Knudsen: Yes.

Almy: No, but they visualize that they will, I believe.

Knudsen: That is all I have.

H.M.Jr: Well, if the people are here we will have them come in. Is that all you had, Leon?

Henderson: That is all.

(Mr. Berna, Mr. Burt, Mr. Dunbar, Mr. Lovely, Mr. MacLeod, Mr. Whipp entered the conference)

H.M.Jr: Gentlemen, Mr. Knudsen and Mr. Henderson are here as members of the President's committee of seven, and now that these gentlemen are here and have these new responsibilities, I have asked Mr. Knudsen if he won't take this very important task off my shoulders, and he has agreed that he will, not that I don't love you fellows, but it is just too much for any one person to do and also raise the money that we have got to pay you with. I have got to raise the money to pay your bills, and that is a job in itself, so possibly you could start talking and I would like to hear where you are today and then maybe Mr. Knudsen would like to adjourn over to the offices that he has at his disposal. But you have a report and if you would make that, then possibly if you would care to adjourn over to where Mr. Knudsen's parlor is --

Burt: I would like to say, Mr. Secretary, that we understood from the reports we had received that Mr. Knudsen was taking this over, so we more or less addressed this report to him. We understood that was the program this morning.

H.M.Jr: Fine.

Burt: So I wanted to explain that first, and second, I would like to take this opportunity to express our appreciation of myself and this group, for your fine cooperation. It has been very helpful

and I want you to know we all appreciate it.

Now, we have a report here and if you don't object, I would like to have the secretary of our group read this if he wants do to it at this time.

H.M.Jr: I would like to hear it.

Burt: And I will give you a copy. There is an original copy for you and one for Mr. Knudsen.

H.M.Jr: Fine.

Burt: Mr. Tell Berna is our secretary. We bring him along to do the work for us.

H.M.Jr: He is very good. Do you want to read this out loud?

Berna: If you would like me to.

Burt: Tell, come up here.

H.M.Jr: He has a nice voice.

Berna: "My dear Mr. Secretary:

The informal committee representing the Machine Tool Committee, the Army and the Navy which met in your office on Monday, May 27th, has held further meetings and submit the following:

1. The machine tool manufacturers will cooperate with the Government to the fullest extent and promise 100% support in supplying machine tools as may be required to carry out the National Defense Program.
2. A Defense Committee of the Machine Tool Industry of 15 leading executives representing important manufacturing plants in the industry and located over a broad area geographically has been appointed as follows:

Defense Committee of the National  
Machine Tool Builders' Association.

Clayton R. Burt ----- Chairman  
President: Pratt & Whitney Division,  
Niles Bement Pont Co.,  
Hartford, Connecticut

Henry Buker ----- Vice President  
Brown & Sharpe Mfg. Co.,  
Providence, Rhode Island.

F. H. Chapin ----- President  
National Acme Co.,  
Cleveland, Ohio.

Howard W. Dunbar ----- Vice President  
The Norton Co.,  
Worcester, Massachusetts.

Ralph E. Flanders ----- President  
Jones and Lamson Machine Co.,  
Springfield, Vermont.

James Gleason ----- President  
Gleason Works,  
Rochester, New York.

Charles J. Stilwell ----- President  
Warner & Swasey Co.,  
Cleveland, Ohio.

Fred V. Geier ----- President  
Cincinnati Milling Machine Co.,  
Cincinnati, Ohio.

Norman D. MacLeod ----- President  
Abrasive Machine Tool Co.,  
East Providence, Rhode Island.

Robert M. Gaylord ----- President  
Ingersoll Milling Machine Co.,  
Rockford, Illinois.

Phil Huber ----- President  
Excello Corporation,  
Detroit, Michigan.

E. A. Muller ----- President  
King Machine Tool Co.,  
Cincinnati, Ohio.

- G. A. Rentschler ----- President  
General Machinery Co.,  
Hamilton, Ohio.
- Joseph L. Trecker ----- President  
Kearney & Trecker Corp.,  
Milwaukee, Wisconsin.
- W. E. Whipp ----- President and  
Monarch Machine Tool Co.,            General Manager  
Sidney, Ohio.
- J. E. Lovely ----- Ex Officio, President  
National Machine Tool Builder's Association  
Vice President and Chief Engineer,  
Jones and Lamson Machine Co.,  
Springfield, Vermont.
- Tell Berna ----- Secretary of the  
General Manager,                    Committee  
The National Machine Tool  
Builder's Association,  
Cleveland, Ohio.

3. The machine tool manufacturers agree that they will undertake to make deliveries of machine tools in time to meet the requirements of the Government's program.
  - a. By expanding the present working forces.
  - b. By sub-letting parts and, if necessary, complete machines, to various factories not engaged in important Government work and who have facilities and ability to produce the quality of work required.
4. A very important factor in determining deliveries of machine tools will be the allocation to foreign countries. This, we assume, will be controlled by the Machine Tool Coordinating Committee, hereinafter referred to.
5. The substitution of simplified machines instead of the present standard type of machines will greatly facilitate deliveries.
6. In the event that a large number of machine tools are required immediately, it will be necessary to commandeer many machine tools that are now on order for foreign countries.

7. It is recommended that a Machine Tool Coordinating Committee be set up as follows:
  - a. Chairman -----Mr. Wm. S. Knudsen
  - b. Vice-Chairman -----to be selected by  
Mr. Wm. S. Knudsen
  - c. Two representatives from the Defense Committee  
of the Machine Tool Industry: Mr. Ralph E. Flanders  
Mr. Howard W. Dunbar
  - d. Two representatives from the Navy --  
Captain D. Almy  
Lt. Commander E.R. Henning
  - e. Two representatives from the Army --  
Colonel H.E. Rutherford  
Army & Navy Munitions Board  
  
Major S. E. Reimel,  
Ordnance Department
  - f. Other representatives to be added from time to  
time, if it is found necessary.
8. A list of names is suggested who are qualified for Vice-Chairman and no doubt there are many others which could be suggested. List attached hereto.
9. The Chairman and Vice-Chairman should be neutrals representing other interests than those represented directly on the Machine Tool Coordinating Committee.
10. It is recommended that the Machine Tool Coordinating Committee should be organized at once and that it should be empowered with the duties of determining the specific requirements of the Army, Navy, civilian and foreign customers, establishing priorities for the guidance of the machine tool industry in filling these requirements and in considering the creation of additional capacity, if and when it is found necessary.
11. Since no authority exists for the enforcement of priorities at the present time, it is vital that co-operative action of all parties will be necessary if priorities are to be effective. The establishment of a Machine Tool Coordinating Committee as outlined, to perform the functions mentioned, is believed to offer the best solution to the machine tool problem.

- 12. Further meetings will be held in the near future at which time the Army and Navy will be prepared to submit details covering various lists of sizes, kinds and types of machines that will be required. This information is essential before any progress can be determined regarding deliveries.
- 13. The Machine Tool Industry plans to put into effect at once a policy of accepting both foreign and domestic orders for machine tools subject to priorities that may be set up by the United States Government. This is for the purpose of keeping our industry in position to meet most effectively the requirements of the United States Government when those requirements are defined.
- 14. We will later submit recommendations on what can be done to assist the industry by improving the labor supply.

Respectfully submitted,  
 Chairman, Defense Committee  
 Bureau of Shore Establishments, U.S.N.  
 Director, Procurement Planning,  
 Army & Navy Munitions Board.

SUGGESTIONS FOR VICE CHAIRMAN  
 MACHINE TOOL COORDINATING COMMITTEE

- |   |   |
|---|---|
| Louis Ruthenberg, President<br>The Servel Corporation<br>Evansville, Indiana. | James Knowlson, Chairman of the Board<br>Stewart Warner Corp.,<br>Chicago, Illinois.                      |
| Clarence Stoll, President<br>Western Electric Co.,<br>New York, N. Y.         | Howard Coonley, President<br>Walworth Co.<br>New York, N. Y.  |
| B. C. Heacock, President<br>The Caterpillar Corp.,<br>Peoria, Illinois.       | Sidney McAllister, Vice President<br>International Harvester Corp.,<br>Chicago, Illinois.                 |
| Harold Vance, Vice President<br>Studebaker Corp.,<br>South Bend, Indiana.     | Charles A. Cheyney, Chief Engineer<br>Buick Motor Division<br>General Motors Corp.,<br>Flint, Michigan. " |

H.M.Jr: What is your pleasure, Mr. Knudsen?

Knudsen: Why, I think the first thing that I would ask you, when you go over to see President Roosevelt, let's see if we can arrive at some idea of how much we are going to allot to foreign orders. If we could arrive at a percentage, that would simplify the problem very much.

The second thing I would like to do, I would like to have a day to go into this, because - just read it over and decide on Mr. Vice Chairman. As soon as that is handled, we could then have another meeting and see where do we go from here.

H.M.Jr: But from now on it is your baby.

Knudsen: All right, sir. This is a rather short session because I got here this morning and I didn't know a thing about this meeting, but I can assure you I will go over and plough through it and if I can know which gentleman I can get in touch with to arrange a meeting, with you picking your own men, we will get the meeting. To begin with, I have a place where we can go to meet; that is something. So with your permission, we will adjourn this session until I get a chance to call whatever gentleman you designate.

H.M.Jr: Do you want to ask anything, Mr. Henderson?

Henderson: No, I will gear in with Mr. Knudsen.

H.M.Jr: Most likely it is the shortest session on record you fellows ever had.

Burt: We think it is very satisfactory, and we are ready to come back at your call at any time.

Knudsen: Who do I contact?

Rutherford: Shall I get in touch with your office and leave -- make with your secretary any necessary arrangements, and then I will undertake to get the crowd together.

Knudsen: I would like to do the starting.

H.M.Jr: I have worked with Tell Berna.

Burt: Mr. Tell Berna, our secretary, in Cleveland, is the man you had better contact.

Rutherford: I am speaking for the Army only.

Knudsen: You are Colonel Rutherford?

Rutherford: Yes, sir.

Knudsen: You will pardon me for being a little --

Rutherford: That is quite all right.

Knudsen: So I contact with you for information regarding this, and I contact with Mr. Berna in regard to another meeting, is that correct?

Burt: That is correct, sir.

Rutherford: Captain Almy of the Navy --

Almy: I will get my contact from Colonel Rutherford, that is all right.

Knudsen: Captain Almy. And you are in Cleveland, Mr. Berna?

Berna: Yes, sir, Mr. Knudsen.

Knudsen: Thank you very much.

H.M.Jr: Thanks very much for coming.

WASHINGTON, D.C.,  
JUNE 2, 1940

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D.C.

SUBJECT: MACHINE TOOL COORDINATING  
COMMITTEE

My dear Mr. Secretary:

The informal committee representing the Machine Tool Committee, the Army and the Navy which met in your office on Monday, May 27th, has held further meetings and submit the following:

1. The machine tool manufacturers will cooperate with the Government to the fullest extent and promise 100% support in supplying machine tools as may be required to carry out the National Defense Program.
2. A Defense Committee of the Machine Tool Industry of 15 leading executives representing important manufacturing plants in the industry and located over a broad area geographically has been appointed as follows:

Defense Committee of the National  
Machine Tool Builders' Association.

Clayton R. Burt \_\_\_\_\_ Chairman  
President: Pratt & Whitney Division,  
Niles Bement Pont Co.,  
Hartford, Connecticut

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Henry Baker ----- Vice President  
Brown & Sharpe Mfg. Co.,  
Providence, Rhode Island

F. H. Chapin ----- President  
National Acme Co.,  
Cleveland, Ohio

Howard W. Dunbar ----- Vice President  
The Norton Co.,  
Worcester, Massachusetts

Ralph E. Flanders ----- President  
Jones and Lamson Machine Co.,  
Springfield, Vermont

James Gleason ----- President  
Gleason Works,  
Rochester, New York

Charles J. Stilwell ----- President  
Warner & Swasey Co.,  
Cleveland, Ohio

Fred V. Geier ----- President  
Cincinnati Milling Machine Co.,  
Cincinnati, Ohio

Norman D. MacLeod ----- President  
Abrasive Machine Tool Co.,  
East Providence, Rhode Island

Robert M. Gaylord ----- President  
Ingersoll Milling Machine Co.,  
Rockford, Illinois

Phil Huber ----- President  
Excello Corporation,  
Detroit, Michigan

E. A. Muller ----- President  
King Machine Tool Co.,  
Cincinnati, Ohio

G. A. Rentschler ----- President  
General Machinery Co.,  
Hamilton, Ohio

- Joseph L. Trecker ----- President  
Kearney & Trecker Corp.,  
Milwaukee, Wisconsin
- W. E. Whipp ----- President and  
Monarch Machine Tool Co., General Manager  
Sidney, Ohio
- J. E. Lovely ----- Ex Officio, President  
National Machine Tool Builder's Association  
Vice President and Chief Engineer,  
Jones and Lamson Machine Co.,  
Springfield, Vermont
- Tell Berna ----- Secretary of the  
General Manager, Committee  
The National Machine Tool  
Builder's Association,  
Cleveland, Ohio

3. The machine tool manufacturers agree that they will undertake to make deliveries of machine tools in time to meet the requirements of the Government's program.
  - a. By expanding the present working forces.
  - b. By sub-letting parts and, if necessary, complete machines, to various factories not engaged in important Government work and who have facilities and ability to produce the quality of work required.
  
4. A very important factor in determining deliveries of machine tools will be the allocation to foreign countries. This, we assume, will be controlled by the Machine Tool Coordinating Committee, hereinafter referred to.

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5. The substitution of simplified machines instead of the present standard type of machines will greatly facilitate deliveries.
6. In the event that a large number of machine tools are required immediately, it will be necessary to commandeer many machine tools that are now on order for foreign countries.
7. It is recommended that a Machine Tool Coordinating Committee be set up as follows:
  - a. Chairman ----- Mr. Wm. S. Knudsen
  - b. Vice-Chairman ----- to be selected by  
Mr. Wm. S. Knudsen
  - c. Two representatives from the Defense Committee  
of the Machine Tool Industry: Mr. Ralph E. Flanders  
Mr. Howard W. Dunbar
  - d. Two representatives from the Navy --  
Captain D. Almy  
Lt. Commander E. R. Henning
  - e. Two representatives from the Army --  
Colonel H. E. Rutherford  
Army & Navy Munitions Board  
  
Major S. E. Reisel,  
Ordnance Department
  - f. Other representatives to be added from time to  
time, if it is found necessary.
8. A list of names is suggested who are qualified for Vice-Chairman and no doubt there are many others which could be suggested. List attached hereto.

9. The Chairman and Vice-Chairman should be neutrals representing other interests than those represented directly on the Machine Tool Coordinating Committee.
10. It is recommended that the Machine Tool Coordinating Committee should be organized at once and that it should be empowered with the duties of determining the specific requirements of the Army, Navy, civilian and foreign customers, establishing priorities for the guidance of the machine tool industry in filling these requirements and in considering the creation of additional capacity, if and when it is found necessary.
11. Since no authority exists for the enforcement of priorities at the present time, it is vital that cooperative action of all parties will be necessary if priorities are to be effective. The establishment of a Machine Tool Coordinating Committee as outlined, to perform the functions mentioned, is believed to offer the best solution to the machine tool problem.
12. Further meetings will be held in the near future at which time the Army and Navy will be prepared to submit details covering various lists of sizes, kinds and types of machines that will be required. This information is essential before any program can be determined regarding deliveries.

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13. The Machine Tool Industry plans to put into effect at once a policy of accepting both foreign and domestic orders for machine tools subject to priorities that may be set up by the United States Government. This is for the purpose of keeping our industry in position to meet most effectively the requirements of the United States Government when those requirements are defined.
  
14. We will later submit recommendations on what can be done to assist the industry by improving the labor supply.

Respectfully submitted,

Chairman, Defense Committee

Bureau of Shore Establishments, U.S.N.

Director, Procurement Planning,  
Army & Navy Munitions Board.

SUGGESTIONS FOR VICE CHAIRMAN  
MACHINE TOOL COORDINATING COMMITTEE

Louis Ruthenberg, President  
The Serval Corporation  
Evansville, Indiana

James Knowlson, Chairman of the Board  
Stewart Warner Corp.,  
Chicago, Illinois

Clarence Stoll, President  
Western Electric Co.,  
New York, N.Y.

Howard Goonley, President  
Walworth Co.,  
New York, N.Y.

B. C. Heacock, President  
The Caterpillar Corp.,  
Peoria, Illinois

Sidney McAllister, Vice President  
International Harvester Corp.,  
Chicago, Illinois

Harold Vance, Vice President  
Studebaker Corp.,  
South Bend, Indiana

Charles A. Cheyney, Chief Engineer  
Buick Motor Division  
General Motors Corp.,  
Flint, Michigan

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MEMORANDUM

June 3, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

Hearings from 10:00 to 1:15. Returned at 2:30 to await the pleasure of the Ways and Means Committee, which was meeting in Executive Session. At the conclusion of what apparently was a fairly stormy session and in which McCormack's resolution to have no hearing was defeated by a narrow margin, it was decided that the public would have until 1:00 on Tuesday for hearings and at that time the Committee was to go into Executive Session with Treasury experts.

While this meeting was going on I met Senator Harrison in the corridor. The Senator advised me that he thought the Senate was anxious to increase the amount of revenue to be raised very substantially. I told him that in his testimony this morning the Secretary had stuck strictly to the understanding arrived at with Senator Harrison, Congressmen Doughton and Cooper. Senator Harrison said that he did not care how high it went. After the meeting of the Ways and Means Committee, Congressman McCormack told me that he thought this bill should be substantially increased and that the Secretary should convey to the President that Congress was ready to vote substantial taxes and might feel that the presently proposed taxes were inadequate.

Later, I saw Congressmen Doughton and Cooper, and in a discussion of the general situation, they stated that they thought this was as far as Congress could go at the present time and that it would be necessary to have a general revision of the tax law if a much larger amount was to be raised. I impressed upon them that I was making no suggestion as to raising it, but was merely conveying to them the information given me by Senator Harrison and Congressman McCormack.

I then learned that Congressman Treadway had insisted upon his receiving early Saturday morning a printed copy of the testimony at the hearing today. It was explained that we would like to have an opportunity to correct this unrevised printed copy. Mr. Tarleau, Mr. Blough and I agreed that in view of possible stenographic errors, it might be most unfortunate for copies to be

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printed until we had had an opportunity to correct it. Accordingly, we made arrangements to get the stenographer's transcript at 7:00 p.m. with the understanding that we would have it at the Government Printing Office not later than midnight.

The stenographer was late in typing the transcript, but we received the first section at about 8:30. Messrs. Bell, Gaston, White, Tarleau and I corrected all the mistakes appearing in the testimony of the Secretary, the Under-Secretary and Mr. White — Messrs. Bell, Gaston and White doing most of the work. This was completed at about 11:15 and Tarleau took the revised copy to the Government Printing Office.

T L S

June 3, 1940  
8:30 p.m.  
(At Secretary's Home)

RE EXCESS PROFITS TAX

Present: Mr. Sullivan  
Mr. Blough  
Mr. Tarleau

H.M.Jr: I am going to do this thing as best I know how, and maybe it will make sense to you fellows, because the President gave me this over the phone at five o'clock today. In the first place, he said he didn't want the Republicans to get away with an excess profits tax. He wanted to beat them to it. He said he worked out the most marvelous scheme. It was an excess-profits tax but not on undistributed profits. Now, I will just read this that I have got, and you fellows most likely know what it is all about.

Put it on all excess earnings on any corporation earning over 4% on its own declared valuation -- no, this is it. Any corporation carrying 4% on its own declared valuation -- earning 4% on its own declared valuation is exempt.

Tarleau: Exempt the first 4%?

H.M.Jr: Exempt the first 4%. Any corporation paying more than 4% during the last three years is exempt up to the amount it has paid in the past. For example, AT&T is exempt on its 9% it has been paying. Those who have been paying over 4%, then you begin to put your tax on it. In other words, you begin to put your excess profits tax over and above the 4%. On the first 1%, 10% tax on that 1%. On the next 1%, an additional 20; on the third 1%, 30%; on the fourth, 40; on the fifth, 50%; and on the sixth 1%, 60; on the seventh 1%, 70; on the eighth 1%, 80; on the ninth 1%, 90; on the tenth 1%, 99. Then he gave an example. A company making a 100% net, which happens to be 4%, is exempt from any additional taxes. Then he went on to explain how the thing worked out. I couldn't make it out, but if a

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company, for instance, earned a 100% net, which happened to be the 4% that would be exempt, and then you would begin to put on it if it earned any more on the first 1%, which would be over and above that, it would pay 10% and so forth and so on. He said if you figured it out, it works out like this. If you earned 10%, you would pay 99%. In other words, the first four is exempt and from one to ten you gradually pay up to 99. Does that make sense to you?

Tarleau: I get some glimmerings, but not very much. I don't know what is his basis, do you, Roy?

H.M.Jr: I think if you would see Randolph Paul he would explain it to you if he was in town.

Tarleau: I can see Randolph.

H.M.Jr: See Randolph Paul and see if you can find out.

Tarleau: Is he in town today?

H.M.Jr: Yes.

Tarleau: I usually know where he stays.

Sullivan: We had better try to find him and find out.

Blough: It doesn't make very much sense.

Tarleau: No, it doesn't make very much sense. I think I had better see Randolph Paul, if you --

H.M.Jr: Sure, you can say I say it smells like him.

Blough: It doesn't, that is the funny thing. It smells more like the Voorhis Bill.

H.M.Jr: Well, the President said it was entirely his own idea, which may or may not be so.

Tarleau: Well, I would like to talk to Randolph.

Blough: Voorhis knows so many things about undeclared value, for example.

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Sullivan: What happens to new companies?

H.M.Jr: Don't ask me.

Tarleau: Don't ask the Secretary. He doesn't know.

H.M.Jr: But the point is, you have got to explain this thing tomorrow morning to Pat Harrison. I told Dowling to put rubber covers on all my seats.

Sullivan: Have them put a couple in my room, too, will you, Mr. Secretary? Look, has the President any definite amount in mind that he wants to raise?

H.M.Jr: No, he just read this. He laughed, he joked, he thought it was terribly funny and marvelous, if you worked out to 14% where they pay 99% excess profits.

Tarleau: It sounds like an invested capital scheme, doesn't it?

Sullivan: That is right.

Blough: Heavier than we have ever imposed before.

Sullivan: Or dreamed of imposing.

H.M.Jr: This is the way we start every year, only this is starting late.

Blough: Yes, this is usually a May storm, and this is a June storm.

H.M.Jr: No, it usually comes in March.

Tarleau: Yes, sir, that is right.

Blough: In '36 it was in March.

H.M.Jr: We usually wait for the 15th of March to see what the returns are, then you start about the 20th or 25th of March.

Tarleau: Well --

Sullivan: I think the general opinion around town, sir, is that this tax bill doesn't raise enough money.

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- H.M.Jr: Well, the other things -- I will tell you, the President is willing to add another billion borrowing power and raise it --
- Blough: An equivalent amount.
- H.M.Jr: Equivalent amount in taxes.
- Sullivan: Well, he is willing. Does he want us to?
- H.M.Jr: Well, I asked him. I said I wanted to bring in these gentlemen tomorrow because I felt that this would be put up to me and I can't stand up there and say, "Well, gentlemen, I promised; I can't do anything." They would say, "After all, you promised before. Send up another bill." Does anybody know whether it is a billion or a billion and a half? We will have to find out. I said, "How about if they want to increase it by another bill, making it four and increase the taxes proportionately." He said, "That is all right."
- Sullivan: Of course, this bill is going to cut across the rest of your tax system.
- H.M.Jr: If you start this, we will be here until election day, but this is what we have got to tell them tomorrow, that the President wants some form of taxes on - what do you call it, excess profits?
- Sullivan: Yes.
- H.M.Jr: And I said, "Is this a suggestion?" He said, "No, you just tell Pat I will give him the first crack at it." He said, "We will make him the most famous Senator since Washington," but he said, if he didn't do it, he, the President, will announce it himself.
- Sullivan: I hope he doesn't announce it in that form.
- H.M.Jr: He has got a press conference tomorrow afternoon.
- Sullivan: Well, do you want us to work out an excess profits tax?
- H.M.Jr: Yes.

Sullivan: That will raise the additional money to float another billion or billion and a half.

Blough: I would personally separate the two, if I were doing it. The purpose of the excess profits tax is to prevent millionaires from growing up, and if millionaires don't grow up, there won't be any tax, and if millionaires start growing up, then there will be a tax. It seems to me it ought to be viewed upon as a sort of preventive and not to be relied on to produce a certain specified amount of revenue.

H.M.Jr: Well, the point is, he made this statement and he didn't do anything about it. Now he is suddenly getting the idea. But I think if they are going to go in for that sort of thing, then they might just as well have a general tax bill.

Blough: That is one of the worst things in a general tax bill.

Tarleau: I drafted this bill for Mr. Sullivan.

(The Secretary left the room).

Tarleau: You are playing with the life's blood of the nation. You can't do that.

Blough: We have been thinking about it for six months off and on, and we don't see daylight on a good many things, even now.

Sullivan: Well now, these rates that the Secretary read don't make sense. They are just silly.

Blough: Because you can't measure income so closely as to justify a thing like that.

Tarleau: You can't measure a thing so closely as to justify cutting a man's throat.

Blough: Take the simple problem of inventory values or depreciation or a dozen other things in the law that are a matter of judgment on the part of the administrative officers.

Tarleau: That is one thing, and the other thing is just the happenstance of the yearly system

of accounting for income tax purposes. Just by happenstance you happen to get it in one year because you are in a cyclical sort of business. I can give you plenty of those examples. Listen, do you think we ought to try to phone Randolph Paul?

Sullivan: Yes, we will phone him later on.

Blough: It seems to me it would be very much better --

Tarleau: He is a pretty smart guy.

Sullivan: I don't think this is his.

Blough: He talked to Randolph Paul for a great part of a day, and he suggested - or at least he wrote a memorandum to the President on the subject of the excess profits tax and pointed out a lot of fallacies in some of the President's proposals.

Tarleau: But he had a proposal or a draft which by and large was the most sensible one we had seen.

Blough: Yes, that is true, and it was quite similar to the general pattern of the war tax, as I recall.

Tarleau: The one thing that they have to bear in mind, John, is you are not going to have a bright thought in the middle of the night that is going to give you a sound excess profits tax. It doesn't work that way.

Blough: This thing has been thought about and thought about and thought about, and it is in all countries, the same problem. The Finance Minister in Australia wrote that it looked like they might have to be up against an excess profits tax. He said it was terrible to have to face it, but they had to, or words to that effect. I wonder if it would be feasible simply to indicate - the Secretary to indicate to Senator Harrison to annex this profits tax, without trying to specify these details.

Sullivan: I have an idea on this thing that I think may be feasible. I will wait until he comes down and then give it to the Secretary and then you see what your reaction is.

Tarleau: You see, it seems to me that the general field of excess profits taxes is of two kinds, as I told Roy. One is to see to it that a person who profits out of the war pays us a heavier tax on those things attributable to war than the average citizen would pay on the same amount of income. That is one type which is a war profits tax. I don't think we will make much out of that, because I don't think we will have many war millionaires.

Sullivan: This third tax in the schedule I had a week ago would accomplish the same results.

Tarleau: Now, the second kind of excess profits tax is that we feel that a person or corporation that earns in addition - an abnormal amount compared to other persons on his invested capital, is better able to bear a heavier tax than other persons, not because he is indecent but because of the fact he has a large profit on a small investment he can bear a heavier tax, that is, taxes based on an invested capital. They ought to make up their mind which of the two they are looking for, and if they are looking for the first type, they ought - that is no revenue measure at all. If they look at the second type, they ought to be sure that with our high rates at the present time it would increase schedules without by and large getting sufficiently the same results.

Blough: And furthermore, 4%, of course, for concerns not - I mean on an actual accounting basis, is not what one would call a basis of excessive profits. I understood about this reference to a declared value - I don't know of any way to set up a declared value which will constitute a measure of excessive profits.

Sullivan: What happens to a new company?

Tarleau: That is always one of the problems.

Blough: We just have to say - have to take a specified percentage of its invested capital. That is usually easier than the old companies, because you can at least determine the capital of the new companies, which is more than you can do

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for the old ones.

- Tarleau: That is the biggest headache, I think, that any human being can have.
- Blough: And to go into this light heartedly --
- Tarleau: That would be disastrous. We had one debacle, an undistributed profits tax.
- Blough: I think it is quite clear that if we get a lot of profits we will have to have an excess profits tax, but it isn't something that could pass between now and Monday morning.
- Tarleau: If they start on that, John, the door is wide open. We are going to be here for months. There are more people outside who are prophets and evidently the ideas came to them on the midnight.
- Sullivan: Of course, they are not handicapped by a knowledge of what happens when the tax bill is written that way.
- Blough: And they have no responsibilities in that connection.
- Sullivan: That is right.
- Blough: Why couldn't they pass this bill that they are now talking about with any changes they wish to make in it or increases, and then pass a resolution calling on the committees of Congress --
- Sullivan: Now you have got my idea. That is just what I am going to suggest.
- Tarleau: It would be a happy solution.
- Sullivan: We will kiss the summer goodbye, but then we will have some decent taxes.
- Tarleau: Yes.
- Blough: Yes. We might steal a couple of weeks at that, because the Congress won't be here continually. But we would have to -- that is right, we would have to give up any thoughts of any lightening of the load. It would be a big heavy fall from

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now until the first of January.

- Sullivan: No, I think you could come back here on a special session late in November or December and pass this bill.
- Blough: Senator LaFollette and a number of others were - who are in the Senate Finance Committee - incidentally, a memo will come in to you in the morning - were calling the other day for recess to resume on the first of September, mostly Republicans, I might say, who may have had an ulterior motive in mind.
- Sullivan: I sent to you tonight a letter from LaFollette asking for estimates on about 45 different things, which information he wishes to have for the pending bill.
- Blough: You should never have started giving LaFollette estimates.
- Sullivan: I don't disagree with him, Roy.
- Blough: I don't either. I am thinking now purely of the bad discipline it is for these committees. You see, we have held the line pretty well to give information only to the chairmen of the committees. There have been two exceptions. One is LaFollette in the Senate and the other is Boehne in the House, and both rose under rather special occasions. It is going to be hard to hold our lines on the others.
- No, by and large, I am quite sympathetic with LaFollette.
- (The Secretary re-entered the conference)
- H.M.Jr: I am going to excuse myself. I am all in. The room is yours.
- Sullivan: We would like to make just one suggestion, if we might, and that is that you submit to the President the passage of this bill in its present form or raise an additional billion in the debt limit and two hundred million more in taxes with an interim session of the committees to work out this bill.

- 10 -

H.M.Jr: Well --

Sullivan: Which cannot be worked out now if we expect Congress to get out this summer.

H.M.Jr: I will tell you what we will do. Let's pop this at these fellows tomorrow. I have got to. The President told me to, you see, and we will see what happens.

Sullivan: You sound as though you were looking forward to it.

H.M.Jr: I am.

Blough: Can it be popped in general rather than being specific?

H.M.Jr: No, I will tell you I am sick and tired of the President giving orders and the people giving him the run around, and he is entitled to having his wish carried out, and this is the wish, and God damn it, I am going to give it to Pat just the way I got it and old Doughton too, and we will have to shout it four times, and I am going to give it. I am sick and tired of seeing all these people give the President the run around, so I am just going to give it. I'm not going to tell Pat the President said it would make him the most famous Senator there ever was and so forth and so on and if he didn't do it, the President would. I am going to skip that.

Sullivan: You can tell Doughton that you will let him postpone for 45 days the effective date of the June thing, and he will give you anything you want.

H.M.Jr: Is that what he wants? You heard Doughton, you know, say that he would be good for that one cent on checks, which is good for fifty million and you have got Danny Bell's soft drink tax.

Sullivan: That is right.

H.M.Jr: Which is good for seven or eight.

Sullivan: We can raise enough money on it.

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H.M.Jr: Don't work tonight on this thing.

Sullivan: We are going to try to find Randolph Paul.

Tarleau: I would like to talk to him.

H.M.Jr: That is all right.

Sullivan: Why don't you try it right now?

Tarleau: He is usually at the Hay Adams House.

H.M.Jr: Tell him it smells like him.

Sullivan: It doesn't. Everybody agrees it doesn't.

Blough: This isn't a meeting of the Finance Committee, this is just Harrison and Doughton.

H.M.Jr: This is just the works, that is all.

Blough: That won't be so bad.

THE SECRETARY OF THE NAVY  
WASHINGTON

CONFIDENTIAL

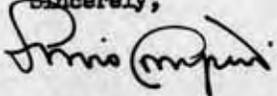
(SC)L11-4/EF.

JUN 3 1940

My dear Mr. Secretary:

Reference is made to your letter of 25 May 1940, enclosing copies of statements showing airplane orders and deliveries to the British and French Governments from 16 to 22 May 1940, and charts showing scheduled deliveries through December 1941.

The Navy Department appreciates very much receipt of these compilations.

Sincerely,  
  
Lewis Compton  
Acting

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

CONFIDENTIAL

SECRET

G-4 6-3-40

Ordinance Materiel to be released for sale or exchange

May be a

Quantity	Item	%	Condition (Estimated)	
			Serv.	Unserv.
1,157	Cal. .30, Lewis machine gun, ground, M1917 ✓		18%	82%
7,071	Cal. .30, machine gun, Vickers, ground type ✓		43%	57%
2,602	Cal. .30, Marlin tank machine gun ✓		67%	33%
15,638	Cal. .30, Marlin aircraft machine gun ✓		94%	6%
5,124	Cal. .30, Vickers aircraft machine gun ✓		70%	30%
38,040	Cal. .30, Lewis aircraft machine gun ✓		34%	66%
✓10,000	Cal. .30, Browning machine gun M1917		Unmodified	
✓25,000	Cal. .30, Browning automatic rifle M1918		Unmodified	
✓500,000	Cal. .30, Rifle M1917 (Enfield)		Serviceable	
✓500	75 mm Field Guns (British) ✓		Serviceable	
✓500	3" Stokes Trench Mortars		Serviceable	
20,000,000	Rounds Cal. .30 Ball ammunition		Deteriorated	
✓20,000	Cal. .45 revolvers		Serviceable	
1,300,000	Rounds 75 mm H. E. Shell		Deteriorated	
10,000,000	Lbs. TNT		Deteriorated	
10,000,000	Lbs. Smokeless Powder (Bulk) for 155 mm Gun		Deteriorated	
10,000,000	Lbs. Smokeless Powder (Bulk) for 155 mm How.		Deteriorated	

Handled me by general Marshall  
4:30 P.M. June 3, 1940.

SECRET

Note:

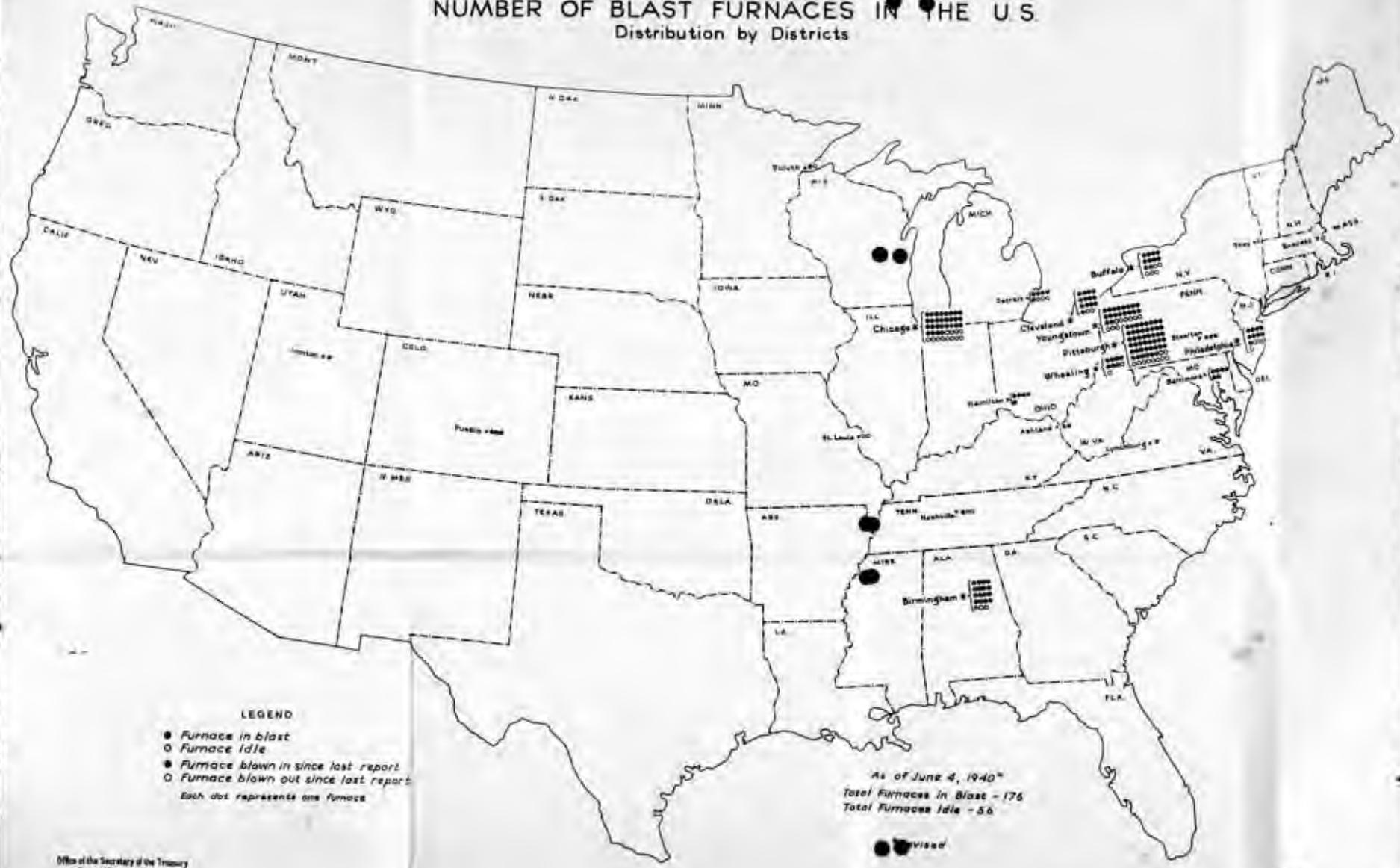
37

This map shows revised data as revealed by the monthly blast furnace survey of the magazine Steel. The total of 14 furnaces blown in and 4 blown out since the last report, as shown in red on the chart, includes some changes made earlier than last week but not previously reported.

Blast furnaces must be blown out from time to time for re-lining and repairs even in periods of high steel activity.

June 4

# NUMBER OF BLAST FURNACES IN THE U.S. Distribution by Districts



RWR

99

GRAY

PARIS

Dated June 3, 1940

Rec'd 5:50 p.m.

Secretary of State,  
Washington.

1013, June 3, 6 p.m.

FOR THE TREASURY.

Frederic Janny again discussed the problem of foreign accounts in francs in his article in yesterday's LE TEMPS. He commences by reviewing the points raised in his article of the preceding week (please see Embassy's telegram 907, May 27, 6 p.m.) namely (A) that the francs in these accounts represent the holdings in France on the franc credits on Franc owned by non-residents; (B) that the exchange control regulations as originally conceived provided that such franc balances could be converted more or less freely into foreign currencies at the official exchange rates; (C) that the exchange control authorities have made it increasingly difficult to effect such conversions with the consequence that foreigners have been forced to sell these francs on the "free" markets; and, (D) that the supply of francs on these markets has been sufficiently great to cause the "free" franc to be quoted at a rate 20 % under the official rate.

(END OF SECTION ONE)

BULLITT

NPL

JT

GRAY

PARIS

Dated June 3, 1940

Rec'd 3:44 p.m.

SECRET  
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 STATE  
 JUN 3 1940  
 VI - 11

Secretary of State,  
 Washington.

1012 June 3, 6 p.m. (SECTION TWO)

He then says "as French merchandise imports are frequently paid for with this category of francs their decline inevitably involves an increase in the prices of these commodities in terms of the national currency and thus reacts on the general level of domestic prices. Consequently it is most important that the present system be modified since one of the principal aims of the control of exchange is the maintenance of the stability of such prices. In summary the question is nothing more or less than that of preventing the depreciation of the free exchange rate of the franc from rendering the monetary regulations particularly ineffective".

BULLITT

NK:NPL

HSM

GRAY

Paris

Dated June 3, 1940

Rec'd 7:56 p. m.

Secretary of State,  
Washington.

1012, June 3, 6 p. m. (SECTION THREE)

Jenny states that "two radical solutions are conceivable and actually possible. The first would be the suppression pure and simple of foreign accounts in France." The other solution will take time, a "return to the system of foreign accounts such as originally conceived." Proponents of the second proposal criticize the first on the following grounds: A suppression of foreign accounts in francs would result in (a) complete elimination of the franc as an international currency and it would therefore become a purely domestic monetary unit; (b) all of France's foreign trade would have to be carried on in foreign currencies, a circumstance which would adversely affect the economic prestige of France; and, (c), while "fluctuations in the exchange rate for the free francs created before the possible abolishment of the present system would no longer exert any material effect on external prices, the existence of an erratic franc

hsm -2- No. 1012, June 3, 6 p. m. (Section 3), from Paris  
franc exposed to the action of speculative factors  
abroad would not be favorable to the credit of France  
and in addition these actions would still have an insane  
influence other than psychological on the quotations of  
stocks and bonds even on the prices of certain commodities."

BULLITT

REP

JUL 1 1941

TO THE DIRECTOR  
OF THE BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
WASHINGTON, D. C.

Paris

Dated June 3, 1940

Rec'd 5:20 p.m.

Secretary of State

Washington.

1012, June 3, 6 p.m. (SECTION FOUR).

Advocates of the first scheme are opposed to the free conversion of foreign franc balances because (a) the link between the franc and sterling on foreign markets would have to be cut since the British authorities "do not appear to be disposed to carry out a policy in such markets which would raise the level of sterling"; (b) many of the francs on the free market have changed hands and hence speculators rather than their original owners would derive benefit from a restoration of the right to convert them freely at the official exchange rates; and, (c) such conversions would result in a considerable loss of gold and foreign exchange.

Jenny, although not coming out directly in favor of one or the other of the proposals, points out that the Franco-British financial agreement does not provide that the two currencies should fluctuate together on foreign markets.

(END SECTION FOUR)

EULIIT

NPL

HSM

GRAY

Paris

Dated June 3, 1940

Rec'd 7:52 p. m.

Secretary of State,  
Washington.

1012, June 3, 6 p. m. (SECTION FIVE)

He says that a compromise solution has also been suggested. It provides that future deposits in foreign accounts in francs could be converted into foreign exchange at the official rates but that no such exchange would be made available for the francs at present deposited in these accounts (Jenny estimates their total at 3,000,000,000 francs). This "intermediate solution" possesses certain disadvantages similar to those mentioned in the discussion of the proposal to suppress all foreign accounts in francs. Jenny claims, however, that these "disadvantages could be lessened in both cases by means of a progressive reabsorption, officially encouraged or instigated, of the floating mass of the transferable but non-convertible foreign francs which might exist at the time when the present system is modified."

BULLITT

REP

HSM

GRAY

Paris

Dated June 3, 1940

Rec'd 6 p. m.

Secretary of State,  
Washington.

1012, June 3, 6 p. m. (SECTION SIX)

A decree published in yesterday's JOURNAL OFFICIEL provides that the ownership or utilization of personal property patents and operating licenses may be requisitioned for the needs of the country provided that such requisitioning does not conflict with international conventions now in force.

In order to relieve congestion in certain French ports arising from the occupation or partial destruction of various ports in northern France, a decree appearing in today's JOURNAL OFFICIEL allocates a credit of 200,000,000 francs to the Ministry of Public Works to be used in the construction of warehouses necessary for the storage of armament shipments and supplies.

The market tended downward today, rentes losing from 75 centimes to 1 franc. Other French securities declined 2 to 3 points. Suez lost 700 points.

(END OF MESSAGE)

BULLITT

REP

June 3, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of May 31st on Mexico. Thank you for your courtesy in making this information available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,  
Federal Bureau of Investigation,  
Department of Justice.

June 3, 1940

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of your letter of May 31st on Mexico.  
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Mr. J. Edgar Hoover, Director,  
Federal Bureau of Investigation,  
Department of Justice.

JOHN EDGAR HOOVER  
DIRECTOR

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

May 31, 1940

-209  
to be  
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PERSONAL AND  
CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

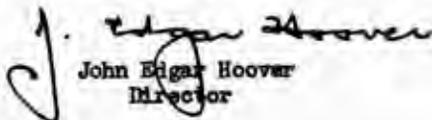
My dear Mr. Secretary:

As a matter of interest to you, I wish to advise that information has been received by this Bureau that the revolution calendared for next month, for the whole of Mexico, is reported certain to occur.

This information was received as the result of an unequivocal statement of fact made by an extremely close associate of Frits Wiedemann, German Consul General at San Francisco, California, in explaining a change in his plans to visit Mexico shortly.

I shall advise you immediately of any additional information along these lines which comes to my attention.

Sincerely yours,

  
John Edgar Hoover  
Director

JOHN EDGAR HOOVER  
DIRECTOR

110

**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

**May 31, 1940**

**PERSONAL AND  
CONFIDENTIAL**

**The Honorable  
The Secretary of the Treasury  
Washington, D. C.**

**My dear Mr. Secretary:**

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This information was received as the result of an unequivocal statement of fact made by an extremely close associate of Fritz Wiedemann, German Consul General at San Francisco, California, in explaining a change in his plans to visit Mexico shortly.

I shall advise you immediately of any additional information along these lines which comes to my attention.

Sincerely yours,

John Edgar Hoover  
Director

RE FOREIGN OWNED SECURITIES

June 3, 1940.  
3:30 p.m.

Present: Mr. Bell  
Mr. Frank  
Mr. Foley  
Mr. Cochran  
Mr. Bernstein  
Mr. Purcell  
Mr. Goldsmith  
Mr. Louchheim  
Mr. Feis

H.M.Jr: State the problem, Bell, so I am up to date.

Bell: Well, you recall before Holland and Belgium were invaded that they came around and wanted to know what we could do to help them with their securities that were held in those countries, particularly the Dutch did, and there were some suggestions made, you recall, for withdrawing them and the State Department gave instructions that consular agents over there should be of whatever help they could, particularly on the certification, and they didn't destroy them or otherwise dispose of them, but they were left over there and undoubtedly seized by Germany when the countries were invaded. Now, the question is up as to whether or not we can do anything to control the transfer or the importation of those securities back into this country. The British and the Dutch and the French have all asked us to take some action on that matter. We had the question come up last week, and we drew up a general order just before the "Washington" came in, which was approved by the Attorney General and the Treasury, the Securities and Exchange and the Post Office Department, and the State Department said they would like to have more time to study it. We had held up the mail on the "Washington" for one day and were ready to examine it and see whether or not any securities came in, but when we found out that the State Department wanted to study it a little further, we wanted to release that mail.

- R.K.Jr: Gentlemen, I lied. I told the President you were holding it.
- Bell: Still?
- H.M.Jr: Yes.
- Foley: We held it for about 48 hours, and then we had to let it go.
- R.K.Jr: I told him we were still holding it.
- Foley: The Post Office couldn't have been more cooperative.
- Bell: Now, I think the time has come when we have either got to take some action on it or let it go by the board, because these other ships are over there and on their way home probably with a lot of mail, and it is also getting time whereby these securities can drift around to other countries and into this market. We have had some indications from New York, particularly the stock dealers and bankers, that are dealing with the Federal Reserve Bank. They are a little apprehensive about the securities that may come in under these conditions.
- R.K.Jr: Jerome, tell them what the President suggested today.
- Frank: I spoke to him briefly about it and he said he certainly saw no reason why the suggestion of going to the Federal Reserve in New York wasn't a very wise one. He also felt that affidavits should be required of anybody seeking to transfer any securities as to their present ownership and the history of their ownership so that we would get a complete control. He was heartily in favor of our doing everything to prevent the Germans by any indirect means getting any dollar balances or using securities to injure our markets, injure the value of our securities.
- Bell: I might mention that the arrangement we made last week was that the Post Office would pick

- 3 -

out those pieces of mail in which there were liable to be securities and deliver them to the Federal Reserve Bank in New York, and then the people to whom the packages of mail were addressed would come over to the Federal Reserve Bank and open them, and if they contained securities, the Federal Reserve Bank would take them over and give them a receipt for those securities and hold them until such time as we determined --

- H.M.Jr: What is the matter with that?
- Bell: Everybody thought it was a grand scheme, but it had to be done under some order from this department.
- H.M.Jr: Have you got any doubts on that, Jerome?
- Frank: No.
- H.M.Jr: Supposing I just give the order?
- Bell: Well, I think the State Department has some question.
- H.M.Jr: Well, the President said never mind the State Department.
- Bell: The last time we met, Herbert, I believe you wanted to discuss it with the President. Has that ever been done?
- Feis: I don't know. Berle will be here. He is in a meeting at the Department of Justice and asked me to say that he might be able to get away for a few minutes. I will tell you what the background is. Dan, did he send you a copy of that list of questions that we prepared on the subject? I thought perhaps he did.
- Bell: I haven't seen it.
- Feis: Well, I will tell you what was in it.
- Foley: Berle read them over the phone to me.
- Feis: At any rate, I will tell you what was in the background of the thought.

- H.M.Jr: What the President meant was, he didn't see that it was any concern of the State Department's.
- Fels: Well, we are perfectly willing to - I think - to withdraw from a decision on the subject, but when the thing was put before us, we did have certain observations that might just barely be worth taking into account. Some of them, the chief of them, were on practical grounds, which was that this rested on a system of postal inspection and with a system of postal inspection, quite possibly it just wouldn't do the job, that you could smuggle securities and evidences of securities across the frontier with the greatest of ease, not only across the frontier but through your plane service, which isn't inspected at all, and you would have to inspect not only mail but you would have to inspect all luggage. That was, I think, the chief basis of hesitation.
- Frank: That is, that it wouldn't be a complete inspection?
- Fels: Well, that it would be -- to be any scheme at all, it would involve widespread postal and customs inspection and even widespread postal and customs inspections wouldn't do your job for you, is the best judgment of anyone that we talked with. Then there would be the question of having this done by your ordinary customs or postal officials, and a great many of them wouldn't know the difference between a bearer security or an evidence of indebtedness and a great many other commercial documents, and it would be very hard to know just what he would hold up.
- Bell: Well, most of it would be in the Federal Reserve Bank at New York.
- Fels: Well, before it got there. This would be the business of detection of anyone that was really trying to get around you, you see.
- Bell: Well, I think we realized it wouldn't be a 100% control, but neither is our narcotic control 100%.

- 5 -

Fels: I am just giving you the thought - just submitting this for consideration.

H.M.Jr: How long, Dan, has this been under discussion, anyway?

Bell: It started about two weeks ago, I guess, wasn't it?

Bernatein: That particular order came up --

Foley: It came up practically when the "Washington" was coming in the other morning, the 28th of May.

H.M.Jr: What's the name of the Congressman that sounded off?

Purcell: Crawford of Michigan.

Frank: I don't know why he picked on us, because we have no power on the premises at all, but he picked on the SEC because we were letting German-owned securities get in here.

H.M.Jr: Excuse me.

Frank: German captured securities and undoubtedly that comment will be repeated, and he indeed asked for an investigation. We would be completely exculpated. I think it would stand on the shoulders of the Treasury.

H.M.Jr: I think you said so publicly.

Foley: That is right. You were quoted in the papers as having said you couldn't possibly have been to blame, it must have been the Treasury.

Frank: I didn't say that. I never made any comment on it because I wouldn't reply to Mr. Crawford --

H.M.Jr: He must have read your mind. Why don't we do this, gentlemen? When the next boat comes in --

Bell: We have got a number of boats coming in, but these particular American boats coming in at the end of the week --

- H.M.Jr: Let's draw up what the Treasury thinks is the best it could do. I will send a copy over to Mr. Hull and I will send a copy over to the President and send a copy over to you (Frank).
- Foley: And to Mr. Farley.
- H.M.Jr: And to Mr. Farley, and tell them that unless we hear from them that this is what we propose to do, and I think it has been going on for two weeks. You have got the letters there, and they can be prepared tonight, I think, in the case of each, with the exception of the President that I will ask that I would like to hear not later than by the evening of the fourth, and that brings the thing to a head.
- Frank: Now, you have got one plan that I think, Herbert, would plug up a lot of holes, would be the tracing of bearer bonds and getting a black list, which won't be very hard to get, which will be fairly complete and that will plug a lot of the holes. Even if they get here, in other words, you will know that they were owned abroad and then you will put them under peculiar surveillance. They have to make affidavits and prove that it was owned by them there.
- Fela: I think there are other approaches, sure. I think to start by giving a warning of possible legal action if these securities are encashed or transferred by other than their rightful owners, and so on, I think a line of action can be developed. There was no tendency to oppose the development of a line of action. It was just a question of whether by taking a second look at it we mightn't be able to develop a line of action less troublesome and more effective.
- H.M.Jr: We have been looking at it for two weeks now. The President definitely told me at lunch today he wants me to do it. He says, "Now do it."
- Frank: I think we are going to be seriously criticized if everything possible isn't done.

- 7 -

- H.M.Jr: He said to do it. He said, "If you have got the power to do it, do it."
- Foley: Well, we have had this ruling that we propose to invoke approved by the Attorney General and the Post Office Department has set up a machinery that will provide for the administration of a ruling insofar as their part of it is concerned, and Mr. Farley said if the policy is determined by you and Mr. Hull and the President, he will do everything to carry it out. They understand it and they have talked to the Federal in New York and they have talked to the Postmaster up there, and they think they can do it.
- Bell: A great many of the large banks in New York knew what was in our minds, and most of them have said that they would cooperate in the matter.
- Foley: Well, that is the thing that surprised the Post Office Department. The Post Office Department thought that holding up for just a few hours mail addressed to the big banks in New York would subject them to a great deal of criticism. I told them that I didn't think that was so, because the banks had been cooperating with us very well insofar as this control is concerned. They called me up the next day and said they had talked with the Federal Reserve Bank and the representatives of the foreign departments of the big New York Banks, and, to their great surprise, they were willing to have all their mail go down there, coming in from abroad, and have it distributed by the Federal Reserve Bank.
- H.M.Jr: Well, gentlemen, please get something ready that I can send over tonight or tomorrow morning to the President, get it cleared by all the Attorneys, show it to Mr. Hackworth, make sure that there is no international law involved in the matter, and get him to initial it and so forth and so on. Let's go to town on this thing. I am under orders, and I am not going to fool around with it.
- Bell: I would like to see these questions the State Department has raised, see whether or

- 8 -

not they will in any way interfere with the thing we have drawn here. We haven't seen them, Herbert. He (Foley) says he heard them over the telephone, but you didn't get a copy of them.

Foley: No, Mr. Berle read them to me over the phone and he said for those reasons they were going to discuss the matter further over in the State Department, take it up with the Secretary, and asked us to hold off until they had had an opportunity to explore it further, and then he called me back and said that the Secretary thought that the matter ought to be taken up with the President, and under those circumstances it would be the first of this week at the earliest before a decision could be made, and I told him then that we couldn't ask the Post Office to hold those sacks of mail that had come over on the "Washington" until this week, and we would have to call the Post Office and release the mail. He said all right, if that had to be done.

H.M.Jr: Well, I don't see that there is much use in dragging this meeting on and - when can you have that ready for me?

Foley: It is ready now.

Bell: The order is ready now, but I think what you would want would be a memorandum to the President, copy to Mr. Hull.

H.M.Jr: Yes, definitely.

Bell: We will have it before you go home, I think, this evening or the first thing in the morning.

H.M.Jr: Thank you all for coming.

(Suggestions with respect to control of bearer security transactions, as telephoned first by Mr. Leroy-Beaulieu to Mr. Cochran, and later submitted at 5 p.m. in memorandum form by the French Emb.)

Prohibition to import bearer securities does not seem sufficient. Frauds could be easily carried out. It would be desirable that the negotiations of bearer securities for foreign accounts be prohibited. Licenses could be issued to permit these negotiations when proof could have been made that the securities had not been taken over by an invader. These licenses would be automatically given for bearer certificates accompanied by affidavits of the French and British Governments. The liquidation of French and British-held American securities should not be hindered.

Furthermore, in order to prevent Germany from selling through third persons, especially Switzerland, the securities seized in invaded territories, it should be made necessary for the intermediaries, entrusted with the negotiating of bearer certificates for foreign accounts, to make known the real identity of the party giving the order./.

HSM

GRAY

Milan

Dated June 3, 1940

Rec'd 8:45 p. m.

Secretary of State,  
Washington.

51, June 3, 10 p. m.

Today's market index 222.47. Volume 71,162.

Market weaker in moderate trading.

SHOLES

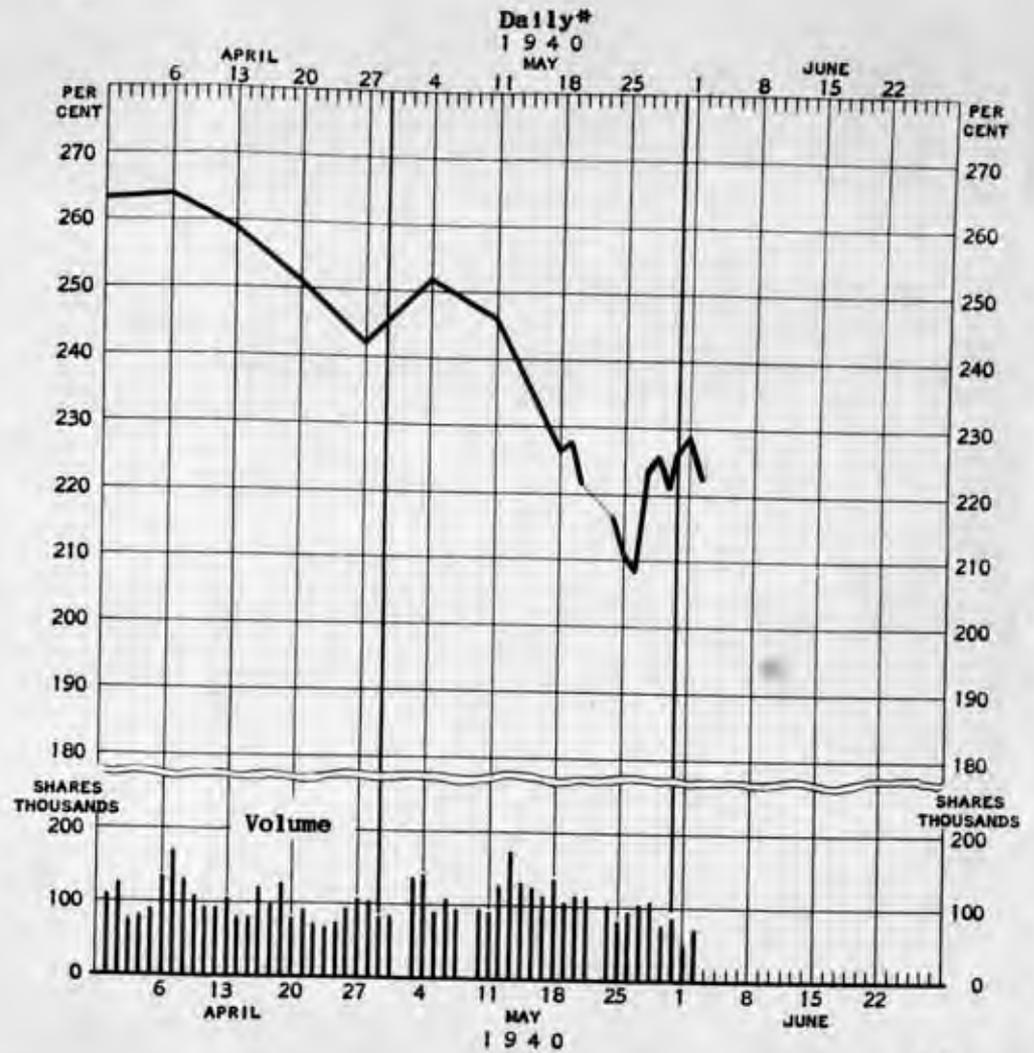
REP

TO THE SECRETARY  
OF THE TREASURY  
WASHINGTON  
JUNE 3 1940

JUN 4 10 33

RECEIVED  
JUN 4 1940

# ITALIAN STOCK PRICES (Milan)



\*SATURDAY FIGURES PRIOR TO MAY 20.

6-3-40

Office of the Secretary of the Treasury  
Division of Research and Statistics

RWR

PLAIN

122

STOCKHOLM

Dated June 3, 1940

Rec'd 8:15 p.m.

Secretary of State,  
Washington.

582, Third.

Alfred reports immediate economic outlook Norway not discouraging. Material damages as a result of war operations not large except in a few smaller towns. Industrial plants are intact and damage to railways relatively small. Domestic business becoming more normal following the resumption of coastwise shipping and traffic on most railroads. Although rationing has been introduced to some extent as a precautionary measure on some foodstuffs there is no danger of food shortage at present. According to an official German statement just issued no foodstuffs will be exported from Norway to Germany. Any Norwegian surplus probably to be used to feed large German occupation forces. Crop prospects are encouraging with increased acreage planted and the condition of the crops promising. Concentrated cattle feedstuffs may run short this fall but wood cellulose mixed with molasses will be used to supplement available stocks because of blockage of foreign trade except with German controlled areas and northern European countries. Many export industries are

are

-2- No. 582, Third From Stockholm

are idle but operations are now being resumed in the metal chemical shipbuilding rubber and other industries. The important fish canning industry is expected to resume soon and some resumption of woodpulp industry planned. cover exports to Germany. However unemployment situation is serious but some relief will be obtained by putting idle to work on rehabilitation and reconstruction projects. Responsible Norwegian shipping interests are anxious to resume trade between occupied Norwegian areas and United States for strictly essential goods on lines of Belgian relief work in the last war. There has been little or no rise in prices since the occupation as result of price control measures and decline in consumption. According to Norwegian and German opinion there is no likelihood of inflation but a deflationary trend may on the contrary set in with the control of prices lowering of interest rates salary cuts and attendant reduction of consumption. Reliable banking sources estimate that note circulation has increased by from 150 to 200 million crowns as a result of financing occupation forces. Quotation of foreign exchanges resumed with dollar again quoted at 4 point 40 crowns. Stock exchange transactions also resumed three days a week with provision for maximum daily declines. Interest falling due in

Stockholm



Prepared by: Mr. Murphy  
Mr. Turner  
Mr. Haas

DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 3, 1940

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Setting for the June Financing -- Supplement

In our memorandum of May 29 entitled, "Setting for the June Financing", we recommended that a note in the 3- to 5-year maturity range be offered in exchange for the maturing 3-3/8 percent bonds and for the new cash, if any, to be raised at this time. This recommendation still seems appropriate.

Since Tuesday, May 28, the latest date covered in the earlier memorandum, there has been little change in the prices of United States Government securities, except for a special weakness in 3- to 5-year notes. This may be seen from Chart I and from the following table, showing the price changes of Treasury securities, by maturity classes, from the close on Tuesday through the close on Saturday:

	Average price change (In thirty-seconds)
<u>Notes</u>	
1-3 years . . . . .	+ 1
3-5 years . . . . .	- 4
<u>Bonds</u>	
5-15 years to call	0
15 years and over to call	+ 2

As will be seen from the table, the average price of 3- to 5-year notes has declined 4/32 during the last three market days. This decline has been the greatest for the longest notes -- the March 15, 1945 maturity declining by 10/32. This weakness may be due in part to the market's anticipation of an increase in the supply in this sector of the market.

Secretary Morgenthau - 2

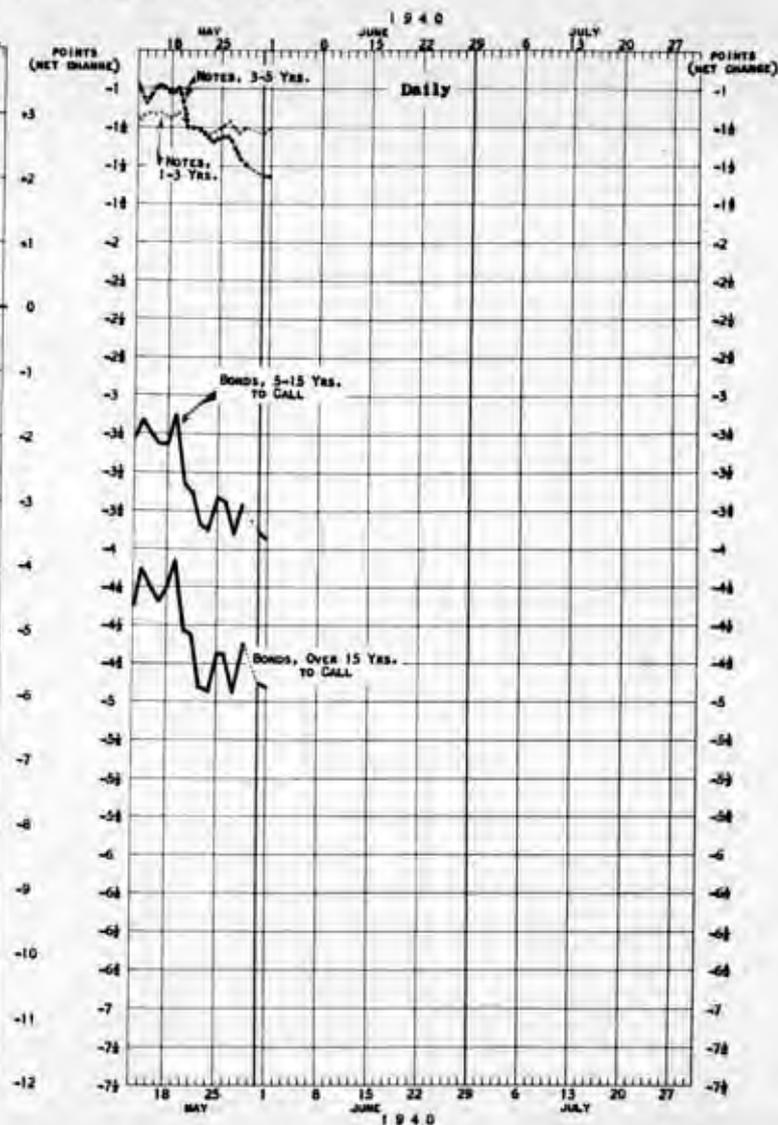
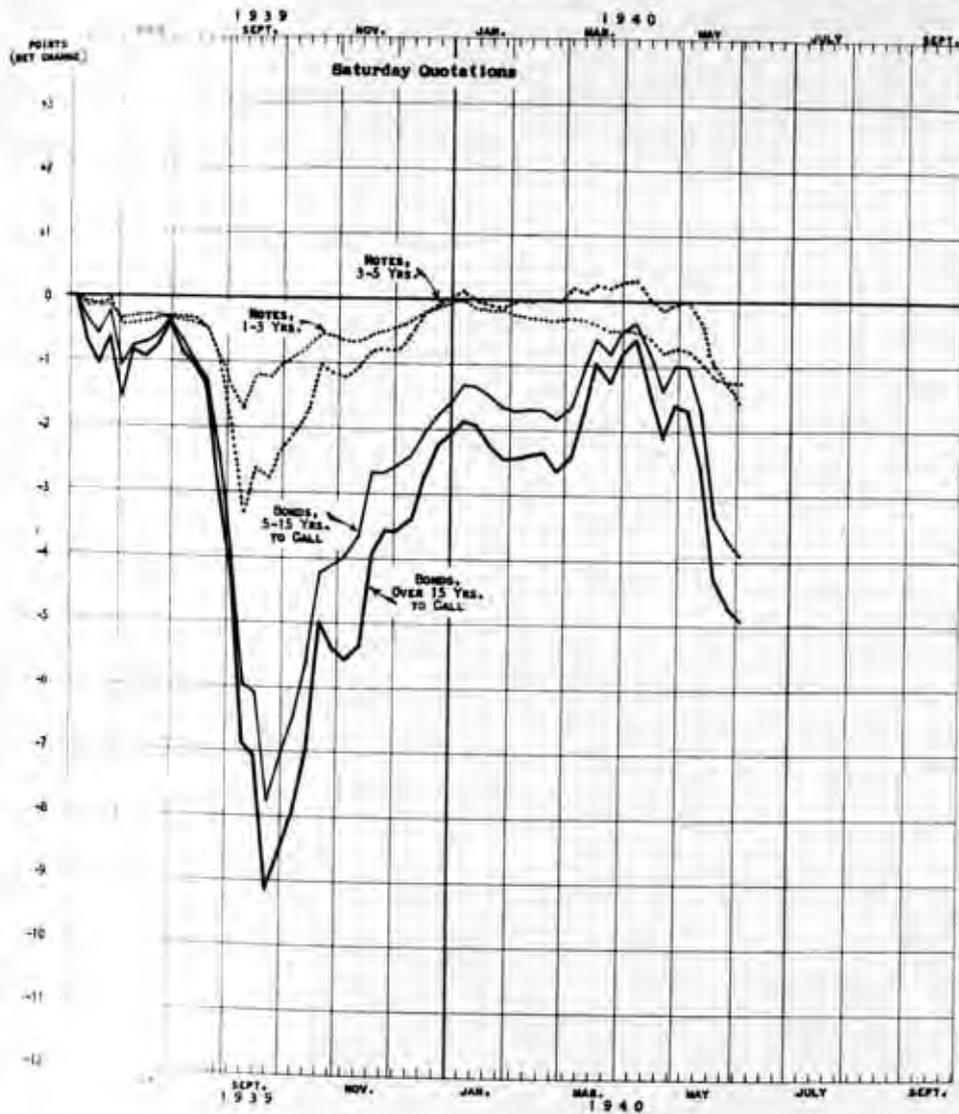
None of the outstanding issues in this maturity range are selling at prices suitable for reopening at par, and in our previous memorandum we suggested a new 3-1/4 year 1 percent note or a new 4-1/2 year or 5-year 1-1/8 percent note as suitable choices. The probable premiums on these securities, based upon closing bids on Saturday, would be as follows:

	: Probable : yield basis : (Percent)	: Probable : premium
3-1/4 year, 1 percent, due 9-15-43	.74	26/32
4-1/2 year, 1-1/8 percent, due 12-15-44	.95	24/32
5 year, 1-1/8 percent, due 6-15-45	1.00	19/32

These notes are indicated by red crosses on Chart II, which also shows the yields of all outstanding Treasury notes selling on a positive yield basis. Any one of the proposed new notes could probably still be offered successfully, but the 5-year maturity is now a trifle thin. Unless the market improves in the interim, it is, therefore, suggested that preference be given to either the 3-1/4 year or 4-1/2 year maturity.

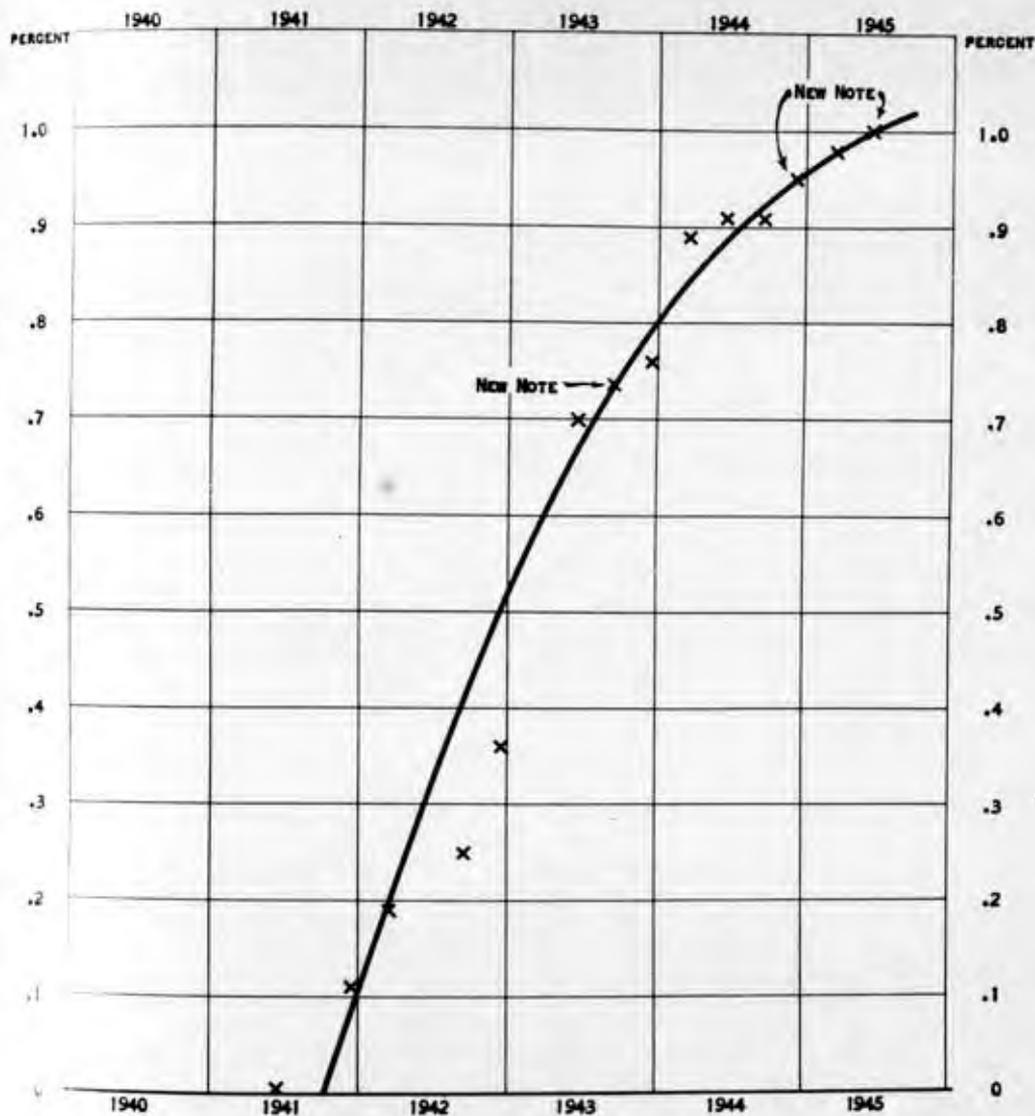
Attachments

Chart I  
 CHANGES IN THE PRICES OF U.S. SECURITIES  
 Points Plotted Represent the Difference from June 5, 1939 Price of Each Maturity Class



Office of the  
 Treasury

Chart II  
**YIELDS OF TREASURY NOTES**  
 Based on Closing Bid Prices, June 1, 1940



June 3, 1940

MEMORANDUM FOR THE SECRETARY:

Pacific Coast Shipping Situation.

The Pacific Coast freight and charter market already somewhat punch-drunk from war effects, despite high rates, was stopped in its tracks last week by the shocking blow of the Belgian collapse. The market for charters and even ship sales "froze", and although the demand for tonnage had reportedly reopened by the end of the week, there was no evidence of charters for any range.

Last week's developments filled both owners' and charterers' minds with ominous forebodings, and nobody was ready to make any commitments until the trend, if only for the immediate future, was indicated. Even the berth trades reacted to the war, and a general construction was apparent everywhere.

The Oriental trade was softer, especially in relation to the general cargo trade. Scrap was offering normally and going rates were quoted at \$16 for rails and \$17 for melting. Cotton was off considerably and no appreciable movement of the commodity was expected to develop until the new season begins. Lumber was spotty, demand being much easier.

A vessel was fixed at \$220,000, lump sum, for lumber from British Columbia to South Africa, but this was evidently closed before the week under review.

The Australian range was soft, both as a result of the war and stringent restrictions against imports from the United States. Lumber carriers reported difficulty in getting \$30.

Intercoastal business continued to get a little weaker in the general cargo department, but lumber space was still fairly tight. It was clearly anticipated, however, that by the end of June there would be plenty of space for all cargoes, including lumber. The Gulf intercoastal volume was off sharply in both directions.

*Basil Harris.*

HSM

PLAIN

Helsinki

Dated June 3, 1940

Rec'd 1:23 a. m., 4th

Secretary of State,  
Washington.

247, Third.

Legation's 212, May 1st.

Government June 1st introduced drafts proposed capital levy tax law and law on compensation war losses.

Capital levy bill expected yield four billion marks. All property specified in basic law establishing Finnish income and property taxes (Law 306 of December 5, 1924 of which translation sent with Legation's despatch 75, December 15, 1925) is to be subject to capital levy with modification that level of exemption reduced from one hundred thousand marks to forty thousand marks. In addition scientific and philosophic institutions subject to capital levy as well as private railways and savings banks. Rate taxation progressive starting with two point five percent on property valued at forty thousand marks and rising to twenty percent on property valued at forty one million marks. Surtaxes ranging from four point five percent on values between forty and eighty thousand marks to

hsm -2- No. 247, June 3, from Helsinki

to twenty percent on values over forty one million marks. It is provided that tax must be assessed and levied in 1940 but that payment may be made over period of four years. Tax may be paid not only in cash but in state bonds issued for war compensation in negotiable securities in accordance with official list of their value to be established by the Ministry of Finance or in promissory notes under regulations which will be promulgated.

Proceeds of capital levy are to be used to compensate for war damages which are estimated to be one-twelfth of the national wealth. According to Government bill principle of compensation is to pay in inverse ratio to amount of loss. Small property owners constituting most numerous group persons qualified receive compensation are to receive full or almost complete settlement of their losses while more wealthy claimants will receive relatively little. (END SECTION ONE).

SCHOENFELD

REP

HSM

PLAIN

Helsinki

Dated June 3, 1940

Rec'd 2 a. m., 4th

Secretary of State,  
Washington.

247, Third. (SECTION TWO)

Sliding scale of payments provides complete compensation for property up to ten thousand marks in value seventy percent compensation for property valued between twenty and forty thousand marks, fifty percent compensation for values between <sup>eighty</sup> and one hundred sixty thousand marks, and only five percent compensation for values over forty one million marks. Compensation to be paid in cash only to the extent of three thousand marks remainder in four percent five year bonds. Bonds not negotiable without special permission of Treasury but can be used in paying capital levy tax or in payment for lands to be sold in conjunction with Government's resettlement project. No individual may receive more than one million marks compensation. Compensation will not be paid in cases where owner has already collected insurance for loss nor will compensation be paid for money, precious metals, jewels or certain forms of negotiable papers. Compensation to be paid on gross value  
which

hsm -2- No. 247, June 3, (Section 2), from Helsinki  
which will be calculated according to Law 306 of December  
5, 1924, with exception that values agricultural headings  
will be average of farm land prices between 1934 and 1938.

Special bonds to be established to estimate losses  
in each parish ceded to Russia while in parishes not  
ceded but where war damage sustained local tax assessment  
boards will make estimates of loss. Appeal from local  
boards whose decision shall be reached by majority vote  
may be carried to national board of appeals whose decision  
final. Debate on these bills commences in Diet today.  
Will report final modifications.

(END MESSAGE).

SCHOENFELD

REP

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE June 3, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *EA*

The Work Projects Administration reports a decline of 25,000 in the number of persons employed, from 1,970,000 during the week ended May 15, 1940 to 1,945,000 during the week ended May 22, 1940.

Attachments

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

Week Ending	Number of Workers (In thousands)
1939-40	
October 4	1,834
October 11	1,875
October 18	1,899
October 25	1,902
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,093
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Monthly  
United States

	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,093

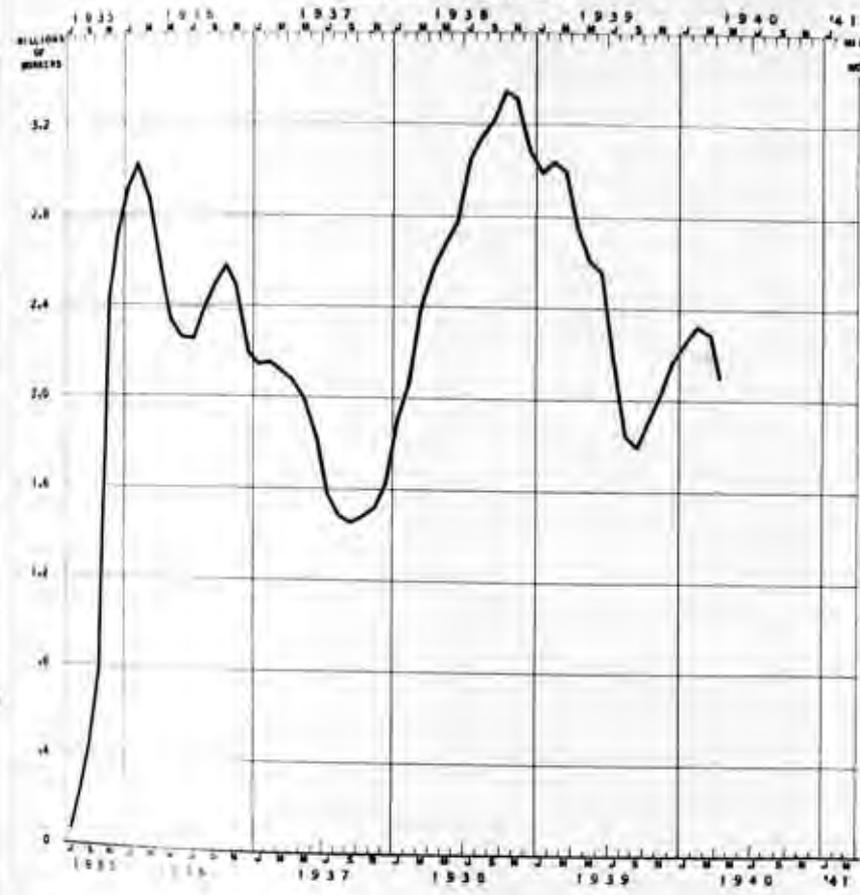
Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

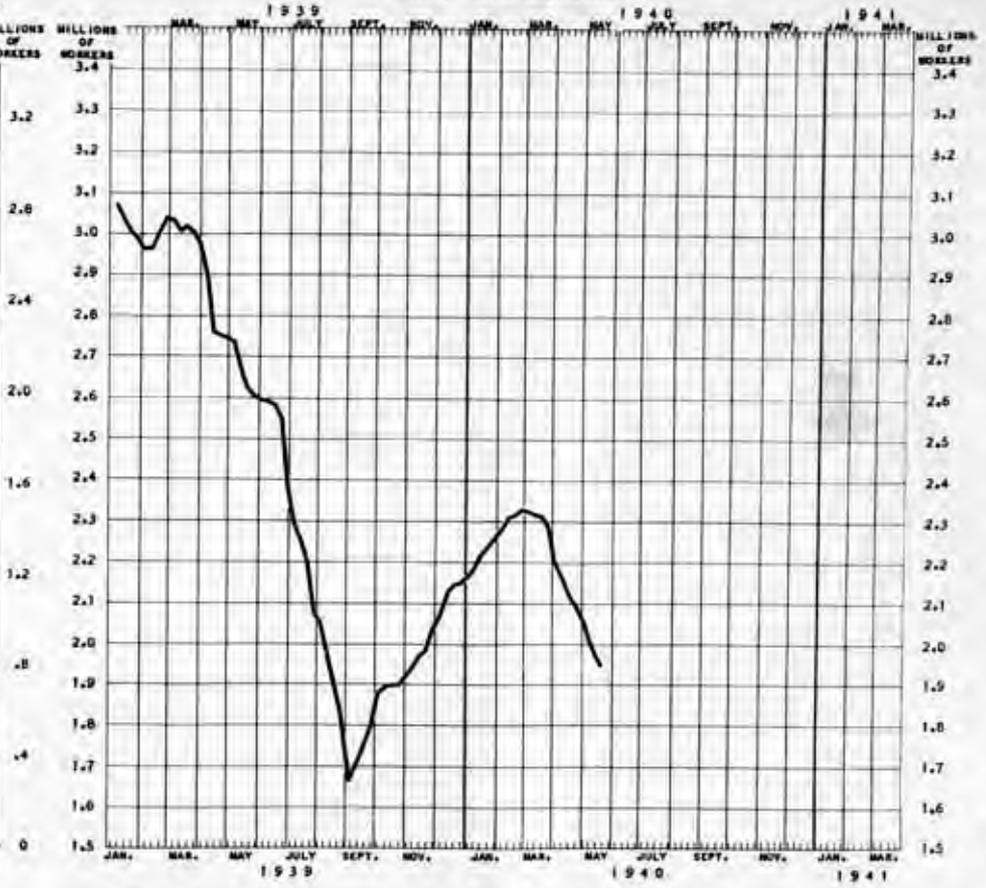
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

Office of the Secretary, U.S. Treasury  
Division of Economic and Statistics

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. Sterling, after opening at  $20-7/8$ , moved within a narrow range until late in the afternoon. It then eased to close at  $3.19-3/4$ . The final quotation was  $1-1/2\%$  lower than Saturday's close.

Sales of spot sterling by the six reporting banks totaled  $\$326,000$ , from the following sources:

By commercial concerns.....	$\$ 84,000$
By foreign banks (Europe and Far East).....	$\$242,000$
Total.....	$\$326,000$

Purchases of spot sterling amounted to  $\$390,000$ , as indicated below:

By commercial concerns.....	$\$186,000$
By foreign banks (South America, Europe and Near East).....	$\$204,000$
Total.....	$\$390,000$

The following reporting banks sold cotton bills totaling  $\$26,000$  to the British Control on the basis of the official rate of  $4.02-1/2$ :

$\$17,000$ by the Bankers Trust Company
3,000 by the Guaranty Trust Company
3,000 by the National City Bank
3,000 by the Irving Trust Company
$\$26,000$ Total

The Guaranty Trust Company reported that it had purchased  $\$5,000$  for spot delivery from the British Control at the official rate of  $4.03-1/2$ . The funds will be used to pay for a shipment of rubber.

Developments in the other currencies were as follows:

The French franc moved with sterling and closed at  $.0181-1/8$ .

The Swiss franc touched a low of  $.2241$  and closed at  $.2242$ .

The Canadian dollar had a better tone today. After opening at a discount of  $21-3/4\%$ , which was also Saturday's closing rate, it improved to  $21-3/8\%$  in the mid-afternoon. The closing discount was  $21-1/2\%$ .

- 3 -

The lira and reichsmark closed at .0505 and .4000 respectively.

The yuan in Shanghai was quoted at 5-1/8¢, representing a decline of 3/8¢ from Friday's rate.

The Cuban peso, which has shown appreciable weakness since last Wednesday, eased to a discount of 11-1/2% today. This is the largest discount for that currency that has been quoted in more than a month. The Mexican peso was unchanged at .1672.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated.

\$22,500,000	from the Bank of England
290,000	from the National Bank of Belgium
<u>\$22,790,000</u>	Total

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$400,000,000	from Canada, shipped by the Bank of Canada, to be earmarked for account of the Bank of France. Slightly less than half of this gold arrived today, and the balance is due tomorrow. These shipments, which dwarf all previous transfers of gold to the United States, clearly indicate that France has been taking steps to get her gold out of the country.
80,000,000	from Canada, shipped by the Bank of Canada, to be earmarked for account of the Bank of England. About half of this gold will arrive on Wednesday, and the balance is due on Thursday.
987,000	from Mexico, shipped by the Bank of Mexico, to be earmarked for its account.
244,000	from Mexico, shipped by the Bank of Mexico for its account, for sale to the U. S. Assay Office.
<u>\$601,231,000</u>	Total

The State Department forwarded to us cables stating that the following gold shipments would be made:

\$7,351,000	from Yugoslavia, shipped by the National Bank of Yugoslavia to the Federal Reserve Bank of New York, disposition unknown. This shipment consists mainly of gold coins, and represents part of the gold that was reported on May 31 as being stored temporarily in Athens by the Yugoslavian bank. Approximately \$3,800,000 of the Yugoslavian bank's gold still remains in Athens.
1,281,000	from England, shipped by Morgan Grenfell & Co., London, to J. F. Morgan & Co., New York.
7,450,000	from Spain, shipped by the Spanish Institute of Foreign Exchange to the National City Bank, New York.

CONFIDENTIAL

724,000 from England, shipped by Samuel Montagu & Co., London, to the Bank of London and South America, New York.  
 574,000 from England, shipped by Lloyds and National Provincial Foreign Bank, London, to the Bank of London and South America, New York.  
 161,000 from England, shipped by Samuel Montagu & Co., London, to the Chase National Bank, New York.  
\$7,721,000 Total

The shipments coming from Spain and England will be sold to the U. S. Assay Office at New York.

India's precious metal prices, having declined the last week, now show an upward tendency under the influence of European war developments. Last week's downward movement was attributed to a speculative liquidation provoked by the belief that Belgium's capitulation might be followed by peace overtures.

The Bombay gold price worked out to the equivalent of \$36.51, a gain of 55¢ over Saturday's price.

Spot silver in Bombay rose the equivalent of 7/16¢ to 44.92¢.

A marked improvement took place today in the London silver prices, due to bear covering by Indian interests and to local trade demand. Spot silver was fixed at 23-1/2d, up 1-13/16d. The forward quotation was 22-3/8d, up 1-3/16d. The much larger gain in the spot price, as compared with the improvement in the forward rate, suggests a shortage of silver available for immediate delivery in London. The U. S. equivalents, calculated at the open market rate for sterling, were 33.97¢ for spot silver and 32.13¢ for forward delivery. On the basis of the official sterling-dollar rate, the spot price was equivalent to 42.72¢.

Handy and Harman's settlement price for foreign silver was 35-1/4¢, up 1/8¢. The Treasury's purchase price for foreign silver was unchanged at 35¢.

We made six purchases of silver totaling 780,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

We also purchased 90,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

**CONFIDENTIAL**

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 3, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
May 27	Nil	Nil	Nil	Nil
28	Nil	Nil	Nil	Nil
29	Nil	Nil	Nil	Nil
30	Nil	Nil	Nil	Nil
31	Nil	Nil	25,000	26,900
June 1	Nil	Nil	Nil	Nil
TOTAL FOR WEEK	<u>Nil</u>	<u>Nil</u>	<u>25,000</u>	<u>26,900</u>
Sales from February 22 to May 25, incl.	<u>1,312,630</u>	<u>45,946,097</u>	<u>1,407,500</u>	<u>1,173,286</u>
TOTAL FEBRUARY 22 TO JUNE 1, INCL.	1,312,630	45,946,097	1,432,500	1,200,186

Mr. Pinsent told me by telephone that Mr. Gifford had reported that unofficial sales for last week (week ended May 25) amounted to \$1,000,000.

The one sale of bonds on May 31 was a special transaction carried out privately, and a price one point below the vesting price was received.

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 3, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *CA*  
Subject: The Business Situation,  
Week ending June 1, 1940.

Conclusions

(1) Business activity continues to improve under the leadership of the steel industry. The New York Times index rose to an FRB equivalent of 107 in the week ended May 25. For the month of June, the Federal Reserve Board looks for an FRB index of around 110, as compared with their present estimate of 105 for May and a figure of 102 for April.

(2) No clear indication has yet appeared that European developments have caused any important curtailment of buying, although automobile buying and department store sales have shown some decline. Increased orders for steel and textiles, on the other hand, have raised our weekly index of new orders to the highest level since last November.

(3) In the steel industry, a wave of buying from domestic and foreign sources, similar in many ways to that of last fall, has markedly increased the volume of unfilled orders. Much of the buying represents advance ordering on fear of price increases and delivery difficulties, as was the case last fall, and may raise similar problems. It will do much, however, to clear the decks of near term domestic business in advance of Government orders for armament materials.

- - - - -

Business activity makes further advance

Against a background of sharply increased steel buying from both domestic and foreign sources, which has brought a rapid expansion in steel output at a time of normal seasonal decline, business activity during the week ended May 25 continued the improvement that has been under way since the last of April. The New York Times index in the week of May 25 rose to an FRB equivalent of 107, up 1 point from the previous week.

The Federal Reserve Board estimates that the FRB index for May will be about 105, as compared with a low of 102 in April. The Board expects a further gain to about 110 in June.

It is noteworthy that nearly all of the recent gains have been due, directly or indirectly, to the upturn in steel production, but some indications of improvement in other industries are beginning to appear. In contrast with the sharp increase in steel output (see Chart 1), cotton mill activity has been declining, due to a lack of orders. New orders for cotton goods more recently, however, have shown some improvement. Automobile production has been maintained better than last year, and lumber production has recently turned upward.

#### Steel industry holds key position

The wave of buying which has swept over the steel industry during the past week is likened by some observers to the buying of last September. Fear of delivery difficulties and price advances later in the year, due to heavy Allied demands and the requirements of our own rearmament program, has apparently led to heavy advance ordering and inventory stocking. The Iron Age believes that this intensive buying movement has carried the volume of new orders in May for some companies close to the high point reached last autumn, while at least one steel maker reports that sales in May were the largest on record.

New orders reported by the U. S. Steel Corporation for the week ended May 23 (when the buying movement was not yet at its height) rose to 345,000 tons, or the equivalent of 102 per cent of capacity.

In consequence of the sharply increased orders and growing backlog of unfilled orders, steel activity last week was stepped up 3.9 points to 76.9 per cent of capacity, with expanded operations in nearly all important districts. (See Chart 2) For the current week, steel operations are scheduled at a further increase of 3.4 points to 80.3 per cent of capacity.

A factor which is contributing to an abnormally high volume of steel orders at this time is the June 30 deadline on delivery of certain steel products contracted for at reduced prices during April. The insistence of steel companies

Secretary Morgenthau - 3

that they will hold strictly to this deadline, and the prospect of higher prices and possible delivery difficulties later in the year, are apparently causing a rush of specifications from buyers attempting to get in under the wire on their full commitments.

The heavy advance buying of steel may raise problems similar to those of last fall, when a bunching of orders under closely similar conditions brought a sharp rise in steel output to practical capacity, which was followed by a later setback.

Under present conditions, however, this situation has certain advantages. It will dispose of much of the near-term domestic requirements in advance of the heavy requirements of the national defense program. It is likewise fortunate, from the standpoint of the defense program, that the heavy buying of steel last fall also took care of a large volume of private steel needs.

#### Many companies begin expansion

The national rearmament program and Allied buying of war materials will have a double effect on industrial activity, of course, where capacity must be expanded to meet the increased production requirements. The Allied buying program is beginning to expand plant capacity in the aircraft industry. An increase in private engineering construction awards last week was partly due to an award of \$1,175,000 for a Boeing Aircraft assembly plant at Seattle.

Your confidential reports from the Anglo-French Purchasing Board show that the British and French governments, up to May 15, had made capital commitments of \$37,032,000 for expansion of plant capacity in the United States aircraft industry and of \$11,352,000 for expansion of plant capacity in other industries.

Among other companies planning enlargements of plant capacity costing over a million dollars, according to press reports, are United Aircraft (\$8,000,000), Tennessee Coal, Iron and Railroad Company (\$5,000,000), and United Biscuit (\$1,500,000). Relining and enlargement of several blast furnaces are also under way, costing up to \$400,000 each. The large utility expansion program scheduled for this year is largely yet to be done, owing to unfavorable weather earlier in the year.

The freight car situation

The supply of freight cars available to meet the requirements of increased industrial activity and increased transportation of export products may not be entirely adequate. Despite the fact that a larger number of freight cars were put into service in the first four months of this year than in any other comparable period since 1930, the retirement of old cars has also been rapid, and the total number of freight cars owned at the end of March this year was 1 per cent lower than a year earlier.

In Chart 3, upper section, we show the average net surplus of freight cars by years back to the World War period, in comparison with the volume of freight carried. While there has been no car shortage in recent years approaching the acute shortages of the World War period and the years immediately following, we came uncomfortably close to a car shortage in 1937 (when the FRB index averaged 110) and in the second half of 1939 (when the average was 115). As shown in the lower section of the chart, the railroads are now carrying a larger volume of freight than in early 1939, and the surplus of cars is somewhat less.

Railroad equipment buying has increased noticeably in the past several weeks, and the Association of American Railroads expects that considerable rolling stock will be bought within the next two months.

New buying well maintained

No clear indication has yet appeared that the European situation and the recent stock market decline have brought on any important curtailment in either consumer or industrial buying. Our index of new orders for the week ended May 25 (see Chart 4) rose to a new high since last November. A sharp increase in steel orders was the principal factor, but the index of textile orders also rose to the best level of any week in May. Orders for products other than steel and textiles, however, have declined somewhat since the high reached in the week of May 4.

Among the companies reporting to us confidentially their weekly sales figures, there has been no evidence of any more than the usual fluctuation in sales in the past two weeks.

In two instances, however, some decline in buying has occurred which may have been due in part to European developments. General Motors' retail sales in the second period of May were sharply lower than sales in the first period, though the company reports this as due in part to previous expansion through sales promotion campaigns. Ward's Reports indicate that automobile registrations during the last two-thirds of the month did not show a normal seasonal expansion. While one might expect automobile sales to be sensitive to shocks of this kind it is difficult to foresee any prolonged curtailment of retail sales when business activity and payrolls are rising. Department store sales in the week ended May 25 declined slightly from the total reported in the previous week, whereas a slight increase was reported by the same stores last year. Press reports attribute the decline in part to unfavorable weather.

A supporting factor in the domestic sales picture is the relatively conservative level to which sales have been held during the past year or more as compared with the level of national income. In Chart 5 we compare the national income with our index of domestic sales, representing the offtake of manufactured goods excluding those for export. It appears from this comparison that the offtake of goods throughout 1939 and early 1940 has in practically no month been excessive in relation to national income. This is in marked contrast with the excessive buying, for example, in 1936.

The adjusted sales index, as shown on the chart, declined rather sharply in April because sales failed to record the usual amount of seasonal expansion. The declining trend of national income has been a contributing factor. While the dollar volume of national income payments in April was virtually unchanged from March, the adjusted index declined .6 point to 86.5. This is equivalent to an annual rate of \$70.6 billions, or approximately the same as that of last September. The average for 1939 was \$69.6 billions.

Commodity prices resist decline

Futures prices, as measured by the Dow Jones index, fell somewhat on news of the Belgian surrender on Tuesday, but averaged slightly higher for the week. (See Chart 6) The broader index of 28 basic spot prices, however, averaged lower. Many trade comments emphasize the possibility that short run uncertainties may be offset by price increases in the longer run as the Government's defense program begins to influence commodity prices.

Purchasing agents are now investigating the possibility that private industry may find shortages in certain materials needed for the defense program, according to a survey conducted by the Journal of Commerce. A number of purchasing agents reported that they are now covering their requirements six months ahead in spite of the possibility of a temporary price decline should there be an early peace.

Weekly business indexes rise further

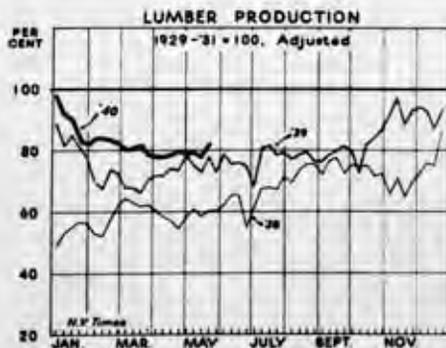
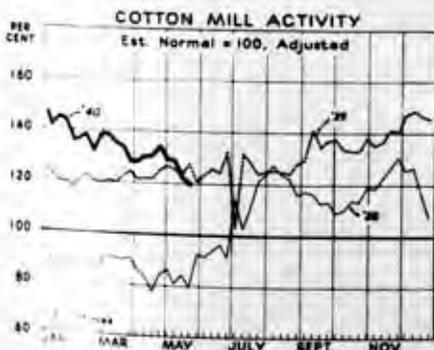
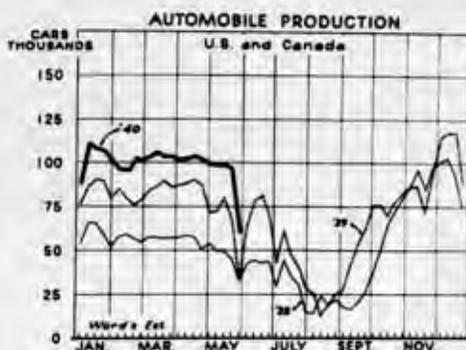
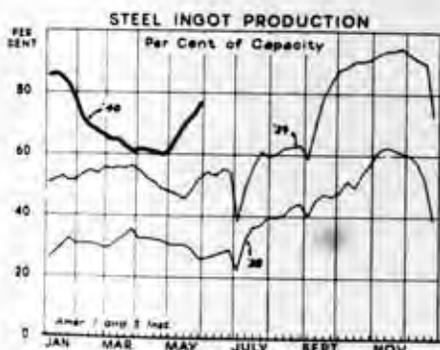
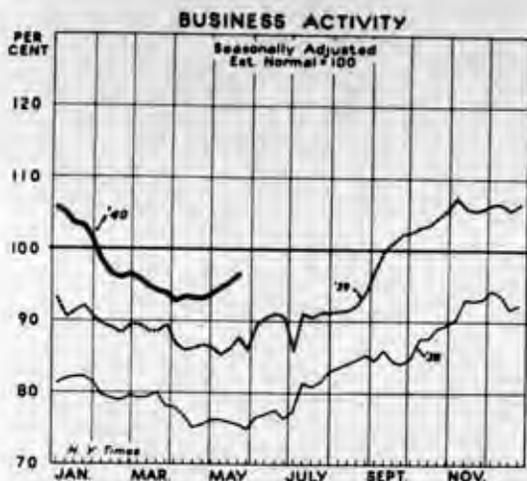
A further gain of 1.1 carried the New York Times index of business activity up to 96.5 in the week ending May 25. This was the fourth consecutive week in which the index moved ahead, and as a result it stands 3.7 points above the low reached in the first week in April.

As in the previous two weeks, the principal factor in the rise was a marked contra-seasonal increase in steel ingot production. As a matter of fact, approximately one half of the rise in the index which has occurred since the first week in April has been due directly to the upturn in steel ingot production. Although freight car loadings, under the stimulus of another good gain in loadings of ore, advanced to a new high for the year, the gain was slightly less than seasonal. The index of cotton mill activity also declined, but all the remaining components of the index advanced.

Barron's index of business activity for the week ending May 25 again confirmed the trend shown by the New York Times index by advancing to 104.4 from 103.5 in the previous week.

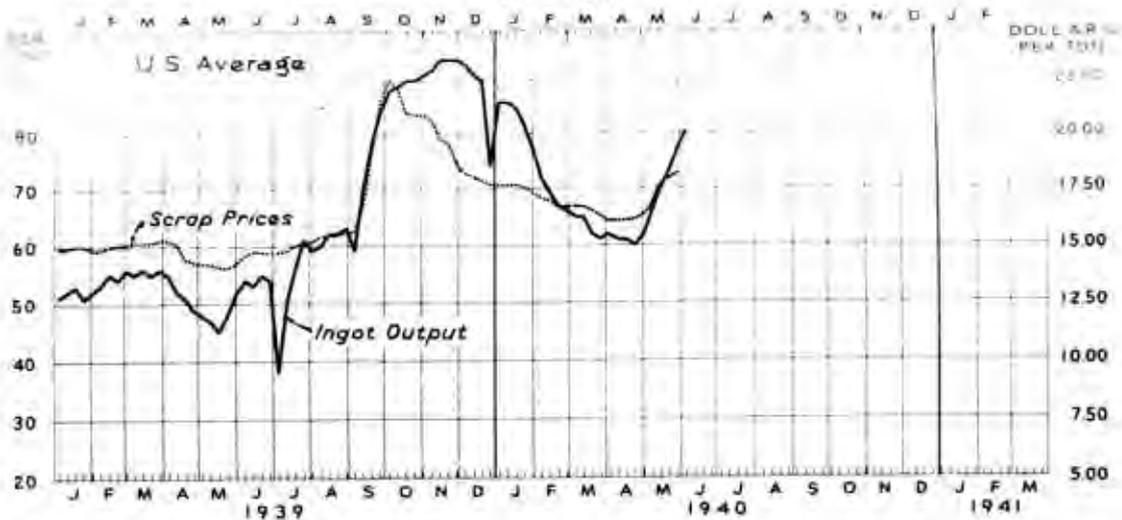
Preliminary data which have come to hand thus far for the week ending June 1 reveal (1) another substantial contra-seasonal gain in steel ingot production, which will cause a further rise of around 6 points in the adjusted index of steel production, and (2) a sharp decline in automobile production of more than seasonal proportions. Actual automobile production for the week ending June 1 declined to 60,980 units from 96,810 in the previous week. However, it should be noted that the more than seasonal decline was due largely to the fact that Memorial Day fell on a Thursday, thus inducing most factories to close down for the remainder of the week. During the corresponding week last year automobile production was only 32,445 units, and the decline from the previous week was approximately 52 per cent, as compared with a corresponding decline of only 37 per cent this year.

# SELECTED BUSINESS INDICES

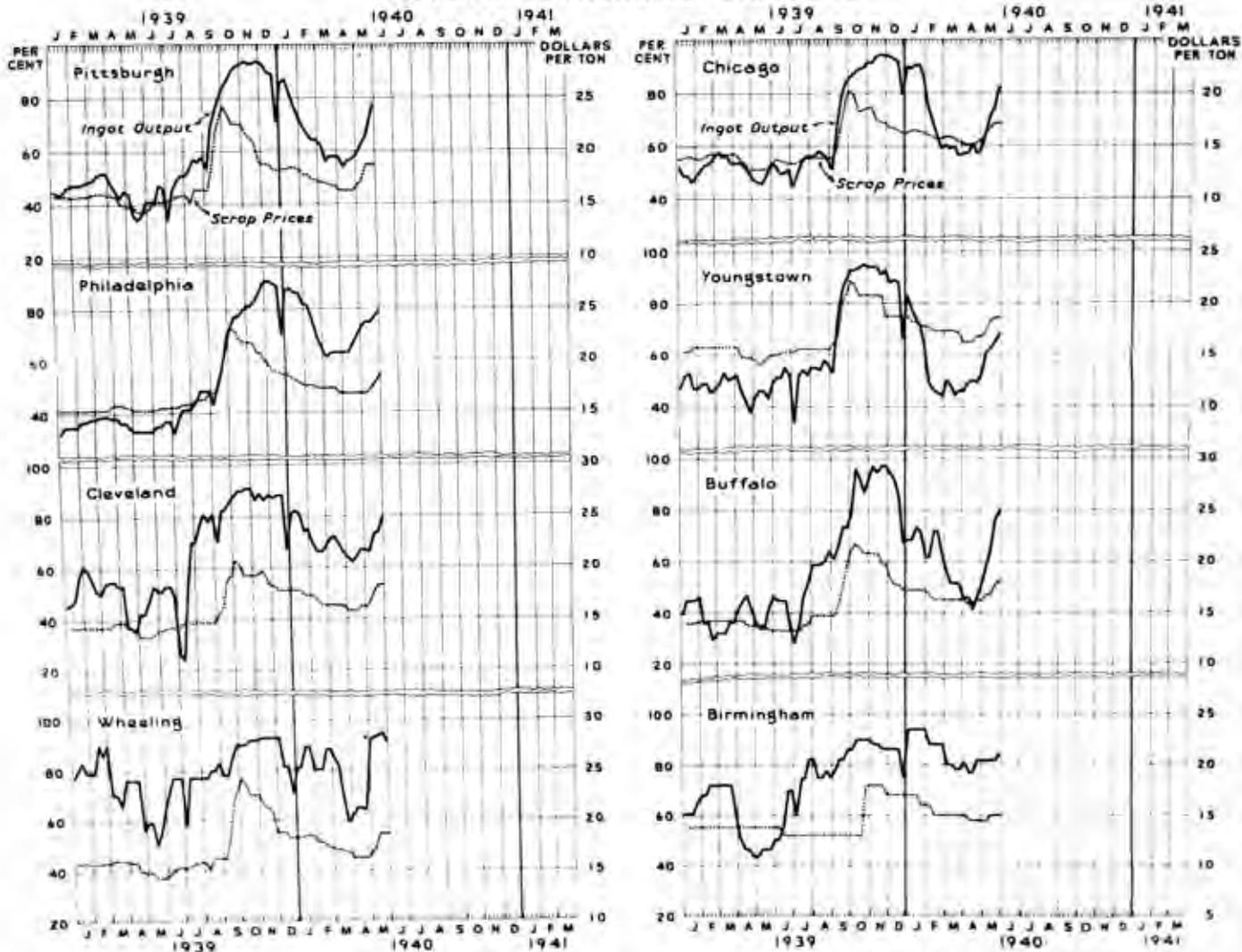


# STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity  
WEEKLY

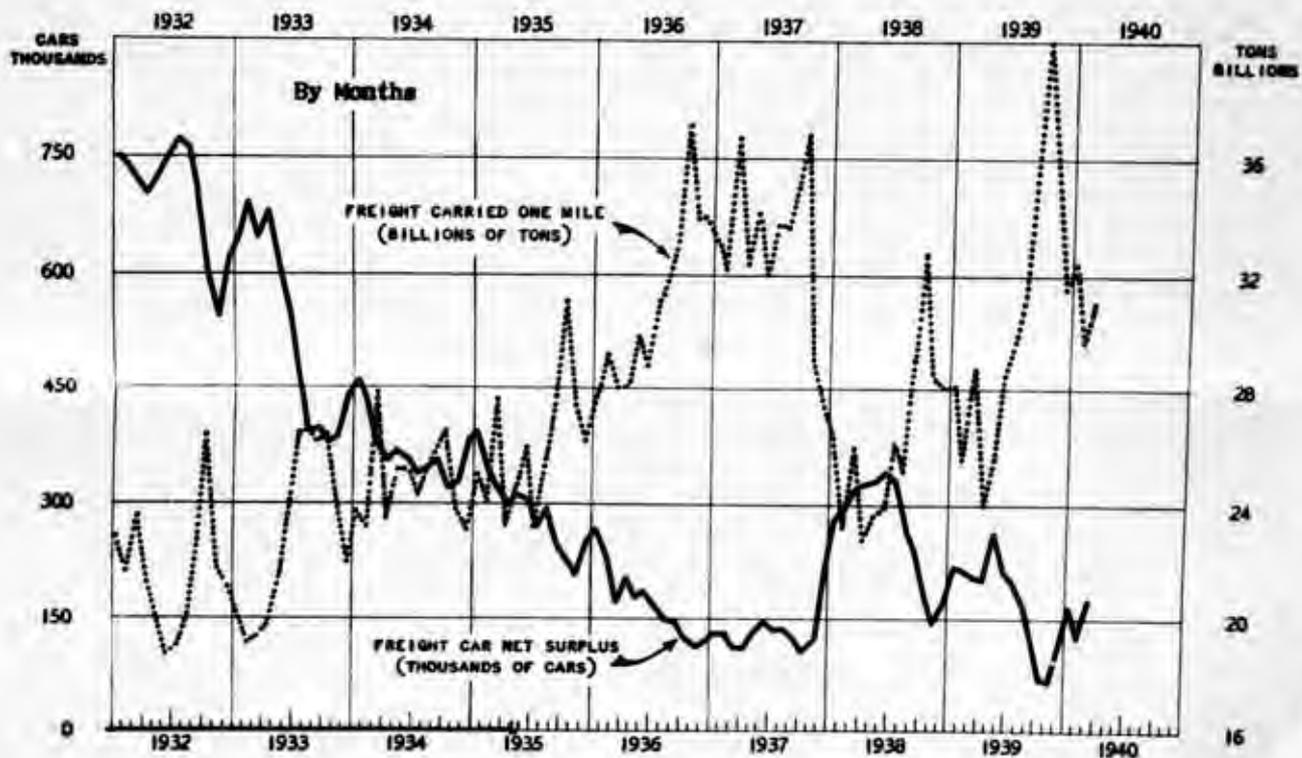
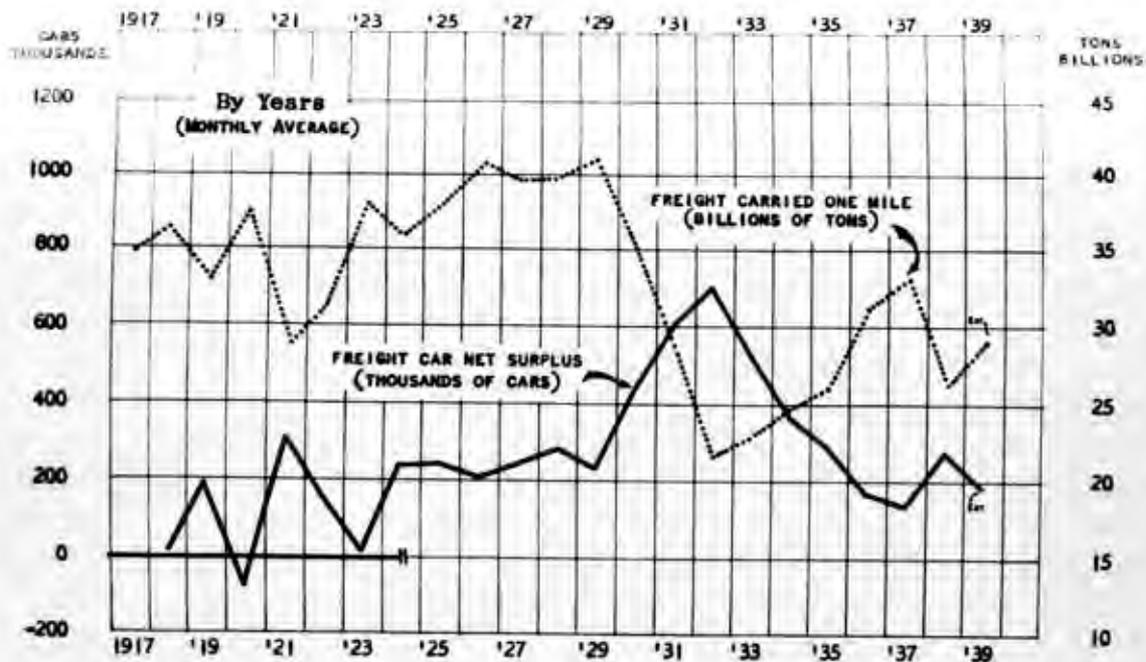


## PRINCIPAL PRODUCING DISTRICTS



\* Largely due to reduction in capacity.

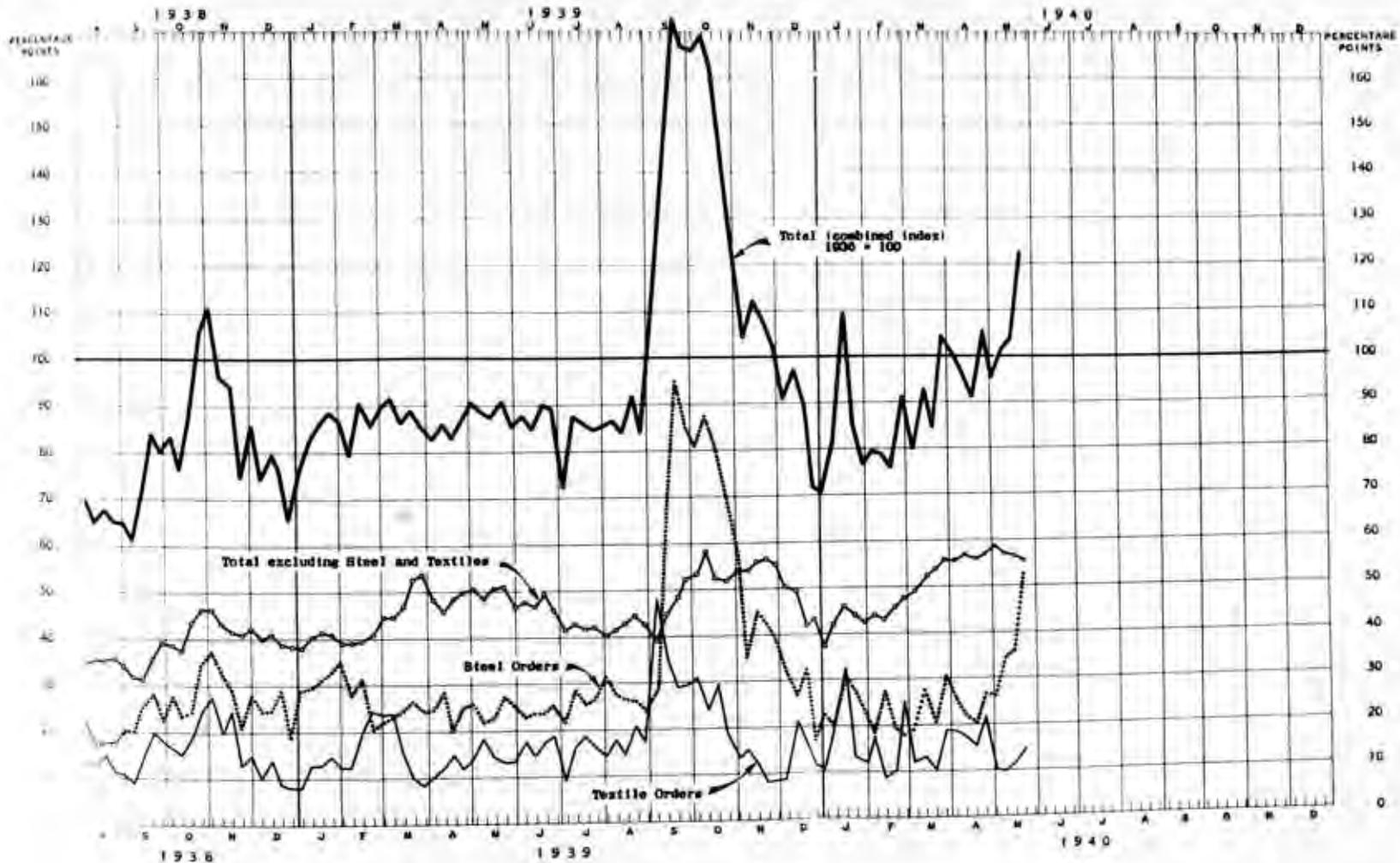
FREIGHT CAR NET SURPLUS COMPARED WITH FREIGHT TRAFFIC



CONFIDENTIAL

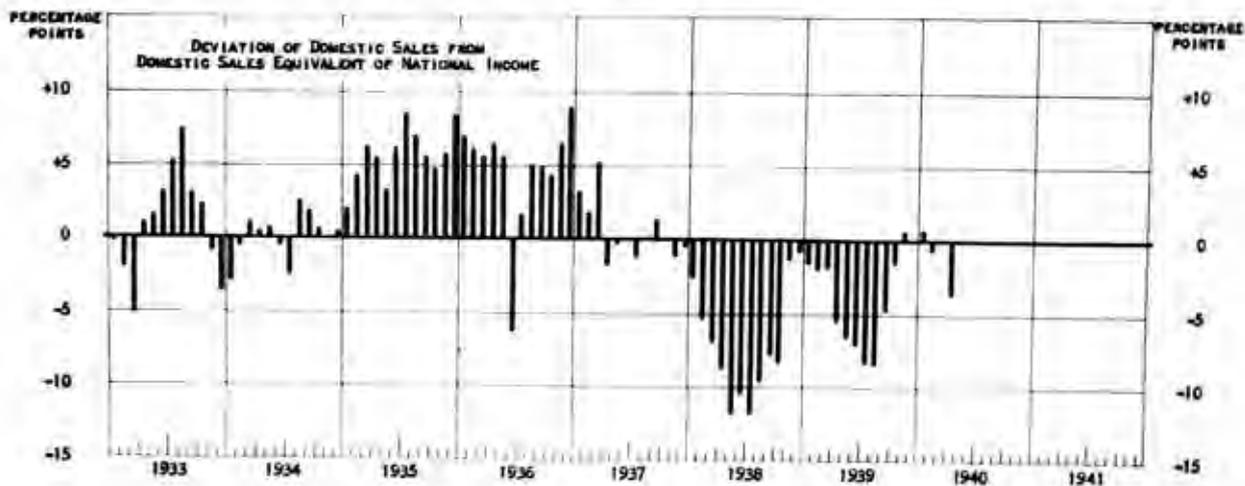
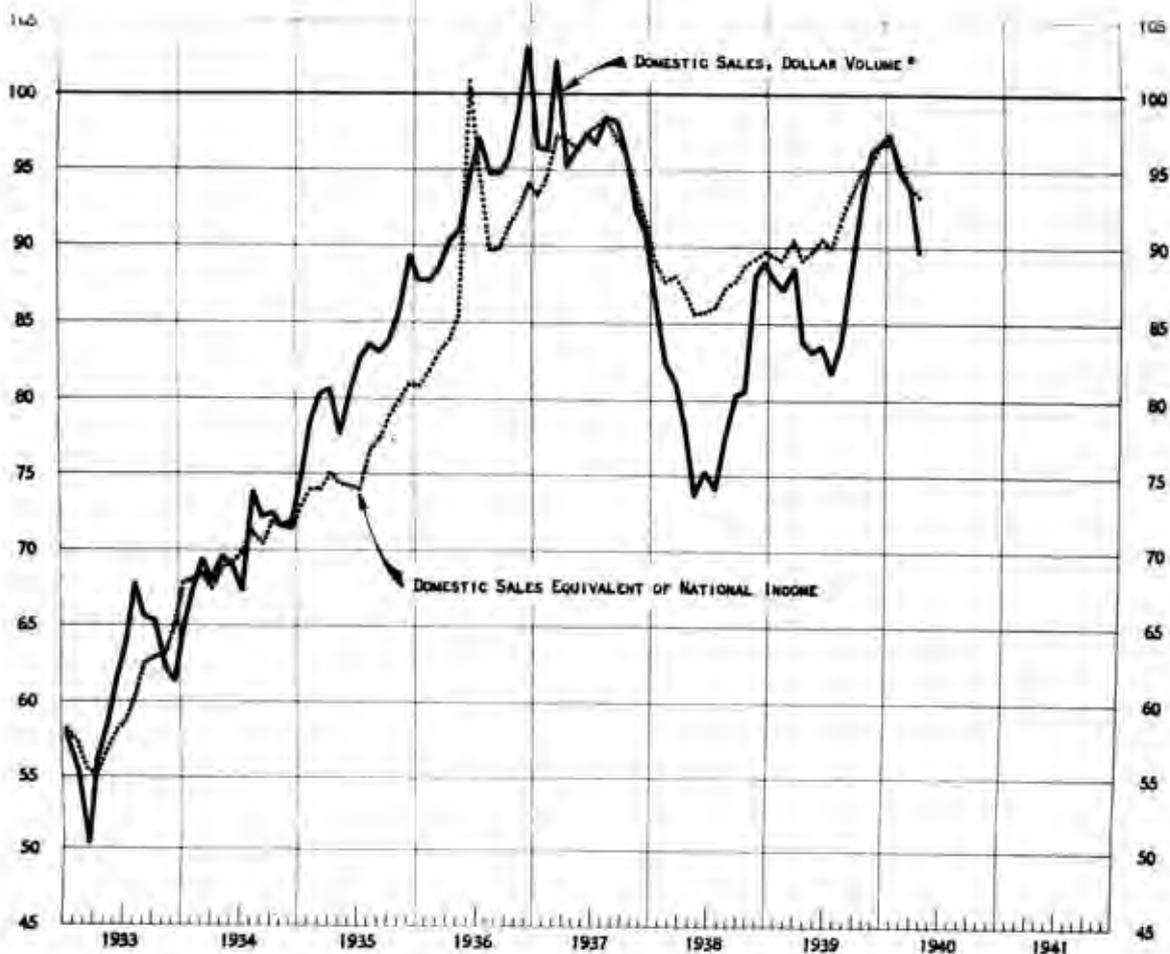
# INDICES OF NEW ORDERS

## Combined Index of New Orders and Selected Components



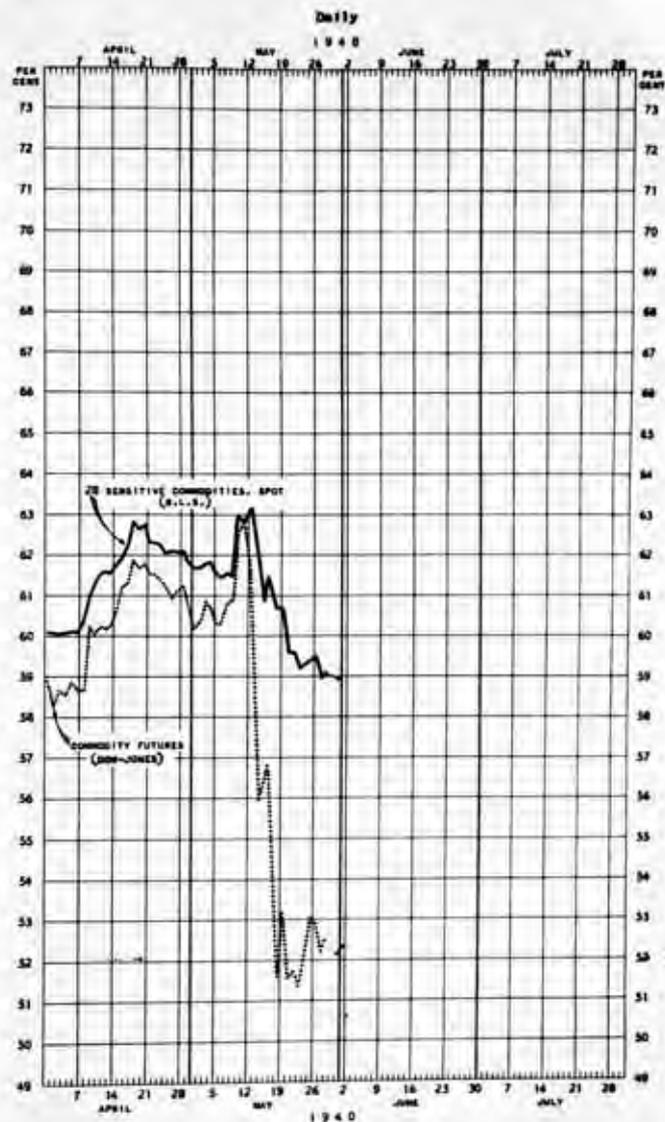
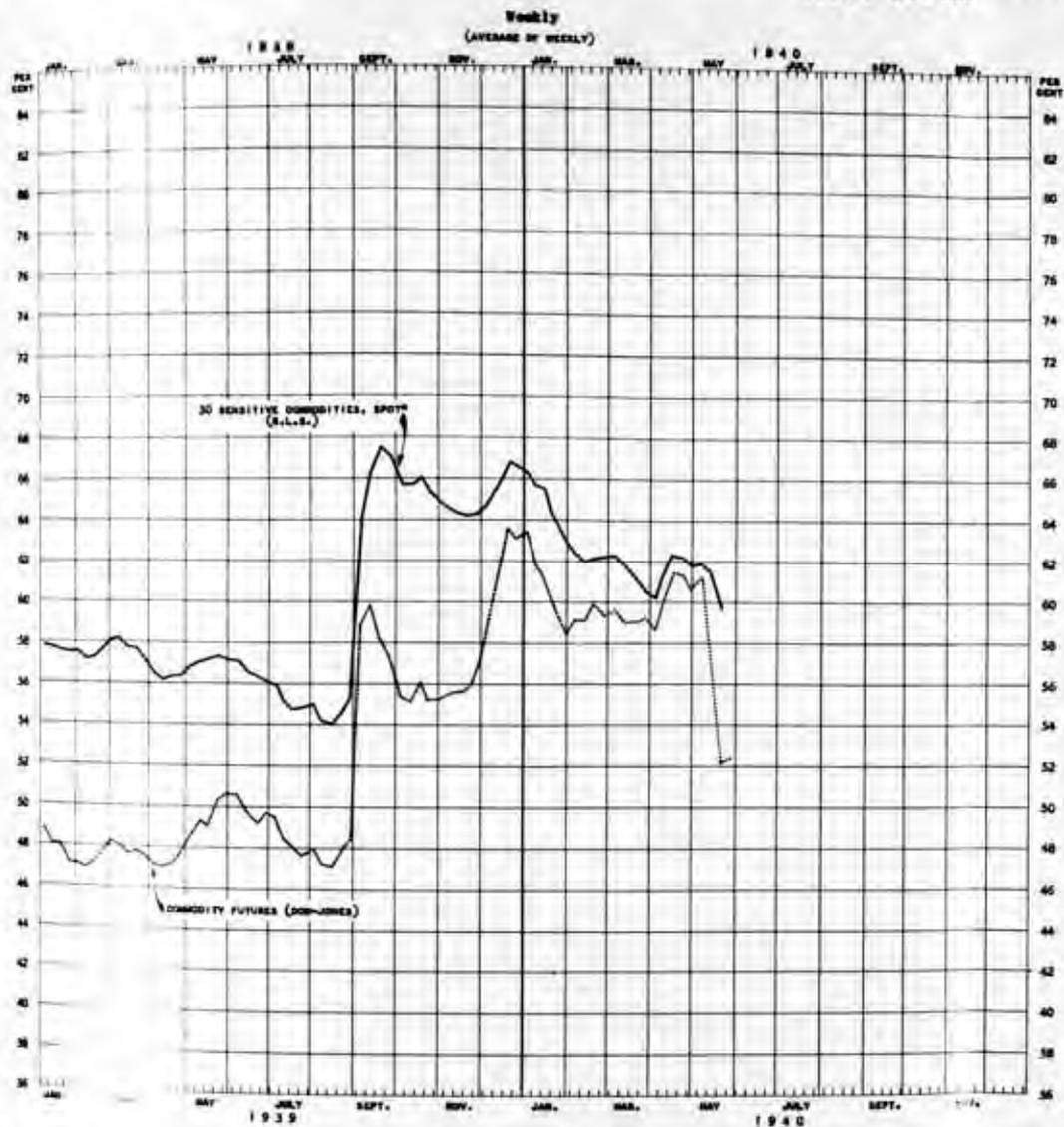
INDICES OF DOMESTIC SALES  
AND DOMESTIC SALES EQUIVALENT OF NATIONAL INCOME

1936 = 100, SEASONALLY ADJUSTED



\* REPRESENTS OFFTAKE OF MANUFACTURED GOODS

INDICES OF WHOLESALE COMMODITY PRICES  
1924 - '28 = 100



28 SENSITIVE COMMODITIES BY DEC. 20, 1939

Office of the Director  
Federal Reserve Board

June 3, 1940.

Dear Dr. Kung:

Through the courtesy of the Surgeon General I have received the letter which you sent to this country by Senior Surgeon L. L. Williams. It was very good of you to write me as you did about the work which Dr. Williams and his associates were able to do in connection with the investigation of malaria problems on the Yunnan-Burma Highway. I only hope that the work the mission has initiated may be carried on, and that it may be successful in controlling this threat against the continuance of traffic on the Highway.

With thanks for your warm good wishes, and my own cordial personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. H. H. Kung,  
Minister of Finance for the  
National Government of China,  
The Executive Yuan,  
Chungking, China.

*Via clipper*

GEF/dba

## *The Executive Yuan*

Chungking, March 14, 1940.

Honorable Henry Morgenthau  
Secretary of the Treasury  
Washington, D.C., U.S.A.

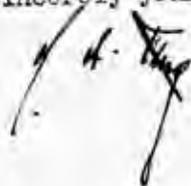
My dear Mr. Secretary:

I take advantage of Senior Surgeon L.L. Williams' return to America to send you this letter conveying the expression to you of My Government's as well as my personal appreciation for despatching to China an anti-malaria mission composed of Senior Surgeon L.L. Williams, Surgeon Hiram J. Bush and Special Expert Bruce Mayne to assist us in the investigation of malaria problems on the Yunnan-Burma border. Dr. Williams and his colleagues have done their work faithfully and conscientiously, even under great hardships and inconveniences. If the menace from this disease could be controlled so as not to interrupt traffic on the Yunnan-Burma Highway during the coming rainy season, it will be a great credit to the mission and of inestimable benefit to China.

I have read with great interest the report of Senior Surgeon Williams, and wish to assure you that the recommendations contained therein will be faithfully followed to the best of our ability. I also note with satisfaction that this important work initiated by the mission will be continued with the assistance of experts from the Rockefeller Foundation and by our own Anti-Malaria Commission.

Accept, Dear Mr. Secretary, the assurances of my highest esteem and deep appreciation of this invaluable assistance rendered to China.

Sincerely yours,



June 3, 1940.

Dear Mr. Keeshin:

On behalf of the Secretary I want to acknowledge your letter of May 31st, transmitting copies of letters you have received from Messrs. Bassi and Van Patter, under dates of May 12th and May 14th.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. J. L. Keeshin,  
President, Keeshin Freight Lines,  
Incorporated,  
221 West Roosevelt Road,  
Chicago, Illinois.

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1756

KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN  
PRESIDENT

221 WEST ROOSEVELT ROAD  
CHICAGO

May 31, 1949

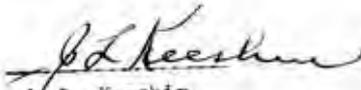
The Honorable Henry J. Morgenthau, Jr.  
Secretary of the Treasury  
Treasury Building  
Washington, D.C.

My dear Mr. Secretary,

Attach hereto copies of letters  
I received today from Messrs. Bassi and Van Patter,  
written from Chungking, China, under dates of May 12,  
and May 14.

With kindest regards,

Sincerely yours,

  
J. L. Keeshin

JLK:LR  
Encs.

COPY

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Chungking, China  
May 12, 1940

Dear Mr. Leeshing:

Mr. Bassi has informed me of your most recent cable stating that you had not heard from either of us for quite some time. This came as a surprise to me because I wrote you in April, from Kweiyang, advising you of the progress that we have made towards establishing the necessary maintenance facilities for the care of the C.T.C. and Ministry of Communication motor vehicles.

I returned to Chungking on April 25, for the purpose of speeding up the maintenance work in this area and also to make the trip through the northwest with Andy. In view of the fact that C.T.C. still needs our assistance, we have temporarily postponed the trip until some future date. However, we did make a six day round trip to Chengtu for the purpose of reviewing the properties and operating policy of the Szechuen Transport Co. which is a connecting line between Chungking and the southern termini of the northwest operation. It is thought that this operation would also be part of the northwest administration, under the Ministry of Communications, in order to insure an even flow of traffic from that section of China. The Szechuen Co. has in the past appealed for central government aid so therefore it is reasonable to believe that a merger will be brought about in the near future.

The highway between Chungking and Chengtu is very good in comparison to other Chinese roads. The engineering is of a higher caliber through the two mountainous sections near Chungking as well as Chengtu, eliminating much of the torture that usually exists on Chinese mountain roads.

In view of the fact that only hand labor facilities are available for maintaining this highway, it is thought that its present condition is very good. Also the metaling is of a better quality which is permitting a higher degree of efficient operation with less road maintenance.

The vehicle operation of the Szechuen Co. is not so encouraging, as it is thought that a 40% improvement will have to be achieved before it can be considered a successful operation. It is quite evident that the men responsible for the truck and bus maintenance are very negligent in exercising their duties and are also very disorganized in their method of work.

Also due to the present gasoline and oil shortages existing here in China, they have had to revert to alcohol as a substitute fuel and are also using inferior oils and grease. This factor alone has caused considerable damage to the motors and chassis parts. We noticed that some of the crankshafts which were removed from the dismantled motors reflected symptoms of wear that usually occur after 75,000 miles of utilization but were very surprised to learn that this condition often existed under 20,000 miles of use.

The China Transportation Corp. has been very nearly a failure since its organization, but I believe at last, that the tables are turned which has caused both Andy and I to become more optimistic for its future existence. Minister Chang Kai-shek as the Chairman of the Board is much firmer in his demand for results than he has ever been before. I am certain that this attitude on his part is going to eliminate many of the now existing evils of the corporation by bringing pressure to bear on the ones responsible for its dormant state.

COPY

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Mr. J. L. Keeshin

- 2 -

May 12, 1940

I have had some encouraging reports from the maintenance supervisor at Kunming, since I arrived here at Chungking, but of course the lack of skilled mechanics still prevails here in China, and will for quite some time. I feel confident that when the time arrives that I will return to America, the shop organization and basic principles will be well established along with a preventive maintenance schedule effecting all C.T.C. shops and garages.

Within the next few days I shall return to Kweiyang, which will require my time for another month or more, and after that I shall make a trip to Kunming, Luhsien and back to Chungking.

Trusting that business is good, and that you are in the best of health, I remain

Faithfully yours,

(signed)

C. W. Van Patter

COPY

C/o Ministry of Communications  
Chungking, May 14th, 1940

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Mr. J. L. Keeshin  
221 West Roosevelt Road  
Chicago, Illinois  
U. S. A.

Dear Jack,

Found your cable awaiting us on our return to Chungking. Van Patter, myself and party have been up to Nei-Kiang, Chengtu and Kwan-Shen the early part of this month, surveying the properties of the Szechwan Provincial Bus Company, in anticipation of the Communication's acquisition.

Upon my investigation of the reason for your not receiving our reports, we find that the assumption was made that a savings in postage could be effected by sending one copy to Mr. Sheahan for both of you. However, we also find that Maurice is no longer connected with your company and that his mailing address has been changed to Arlington Heights. If you will give us the date and file number of your last communication from this commission, we shall obtain any and all such copies which have not been sent you.

As to reports and bulletins in the future, we can assure you that very few will be forthcoming. The reason for this is no doubt apparent to you, inasmuch as little if any good comes from "advices", submitted by advisors. What we must do and have been doing of late, is driving them toward the semblance of an operation by and our personal supervision and direct questioning at the weekly executive meetings. This method causes embarrassment to the operating department heads. The repeated reference to the same subjects until they cannot longer delay action without loss of prestige or so called face, is very effective.

C.T.C. has been moving wood oil for the past month in exactly ten, three ton truck quantities per day, out of Chungking. In this way we hope to get a routine set up whereby everyone concerned will get the habit of doing their part and a semblance of co-ordination will become established. Then we expect to step up movement to 15 trucks per day and before we leave, we hope that we may see at least twenty truck loads per day moving out.

Today we started eleven units out; by the end of this week the fifteen will be moving. This seems like a drop in the bucket to you, no doubt, but believe me, it's quite an accomplishment over here.

Van Patter has finished the Shop set up in Kunming, got the project under way at Kweiyang and prior to our departure on our recent trip, layed out the installation plans for the Chungking area. The work is progressing in a manner not entirely satisfactory, of course, yet, better than can be expected under the circumstances. He will leave here day after tomorrow for Kweiyang in complete charge, this time to clean house and get this very bad situation under control. He will stay there for at least a month or until he has the Shops in production.

We must find a successor for Van Patter and it has been suggested that a foreigner be appointed, the scarcity of capable Chinese for shop work supervision is known and appreciated by all concerned. In the past we have consistently refused to become involved in personnel matters, however, the time has come when, in order to leave here with a clear conscience, we must see some semblance or nucleus of an operation actually functioning. Therefore, we have done an about face on this score and will either recommend or condemn anyone deserving or either based on observed behavior.

COPY

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Mr. J. L. Keeshin

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May 14, 1940

We are quite at a loss to understand what happened between Maurice and the Keeshin Company to have caused a severance of relationship, so we have decided to reserve any opinion on this score. We do feel however that if the situation were imminent before he left here, he should have remained here. Naturally his bridges are burned behind him and his return would be awkward for him.

We have heard from Francis Pan and know K. P. Chen is on his way here. There are several other matters that have transpired over here that we should have been apprised of and we had expected to hear from you with reference thereto, especially before Mr. K. P. arrived. However, we believe we can put two and two together and draw our conclusions therefrom, accordingly.

I have personally succeeded in accomplishing a sufficient reform of the fuel situation, so that I have little compunction now about having been away from my job for a year. At least the supplier is now back in business and if the Idiots who can think only of plans for control of this and control of that, can be held in check, things may go along swimmingly. I have devoted quite a bit of my sleeping time to this cause and feel that neither side has been neglected. We can face any one without fear of just criticism and if certain things have not been done, it has not been the fault of the commission and breaking up the lethargy of a whole nation cannot be charged against three men.

From here on, our work will be mostly in connection with actual operations, as their ability to work without pressure is nil. Therefore, expect very little in the form of further recommendations and suggestions, the volume of material they have on hand for future reference should suffice for at least, a five year plan.

We expect to leave here about the last of July so as to not override the expiration date of our insurance policies, unless they renew them, which at this time is hardly practicable.

Our best personal regards for the present, we remain,

Yours sincerely,

(signed)

Andy Bassi  
C. W. Van Patter

June 3, 1940  
11:38 a.m.

Operator: I have Commissioner Helvering.

H.M.Jr: Right.

Operator: Go ahead.

Commr. Guy Helvering: Hello.

H.M.Jr: Hello.

H: Mr. Secretary.

H.M.Jr: Yes. Go ahead, Guy.

H: On that big case in Chicago .....

H.M.Jr: Right.

H: I gave that memo to you that showed the total payment of eight and the method of payment.

H.M.Jr: Right.

H: What I want to get is -- I -- clearance from you that we go ahead on that basis of one change. Now the change is in the second and third year instead of the million dollars at one time. They want that split in two payments of \$500 thousand each.

H.M.Jr: Right. Now if you recommend it, it's all right with me.

H: Well, I .....

H.M.Jr: The total eight just stays the same.

H: Oh, yes.

H.M.Jr: All right, Guy. Is that all you want?

H: I just wanted to get it clear and see if there was any question you had about it and if not we'd go ahead .....

H.M.Jr: No. Go ahead, Guy. But when the thing is finally signed and settled, I want you over here and I want to give that thing a little publicity because after all it's the Treasury that's done this thing.

H: Surely.

H.M.Jr: And I want you over here and you might be thinking what we should say. See?

H: Yes.

H.M.Jr: And I'm going to have a special press conference with you present .....

H: All right.

H.M.Jr: ..... whenever I sign it. See? Whenever it's settled.

H: See, this will be an offer of compromise which will have to come to you for signature.

H.M.Jr: Well, when I sign it, I'm going to have a little ceremony.

H: Yeah. All right. (Laughs)

H.M.Jr: All right.

H: Thank you.

H.M.Jr : All right.

June 3, 1940  
12:01 p.m.

H.M.Jr: Hello.

Operator: You can talk to Mr. Doughton. Go ahead.

H.M.Jr: Hello.

Congressman  
Robert  
Doughton: Good morning, Mr. Secretary.

H.M.Jr: How are you, Bob?

D: All right, Henry. How are you?

H.M.Jr: Oh, I'm fine.

D: Well, that's good.

H.M.Jr: I was up hoeing my potatoes.

D: How's that?

H.M.Jr: I was up hoeing my potatoes.

D: Yeah, I heard you were. Well, I hope you found them growing good.

H.M.Jr: Oh, yeah. Everything is going fine.

D: Good.

H.M.Jr: You called me Bob.

D: Well, I called Saturday. I thought I'd check with you. You told me to call you back upon that appointment that, you know, I spoke to you the other day, and you said call you back on it.

H.M.Jr: No, what I said was if you would give the facts to me or to Sullivan, we'd go through with it.

D: Well, I -- all the facts I had were -- I gave you when I was down there.

H.M.Jr: Yeah. Well, what do you want us to do, bring the boy in, or what?

D: Well, he's here now. What I want to do is -- is to set out -- to turn the case over to some investigators, you know.

H.M.Jr: Well, I tell you what you do.

D: Yeah.

H.M.Jr: Send him down to see Norman Thompson at 2:00.

D: If I can get in touch with him.

H.M.Jr: Will you?

D: Let's see, send him down to see Norman Thompson.

H.M.Jr: Yeah. He's my Administrative Assistant and he'll take good care of him.

D: All right.

H.M.Jr: Now what are you going to do about this bill?

D: Well, we're holding hearings we're going to close tomorrow at 1:00 o'clock, and we'll see what we can do after we get through with the hearings.

H.M.Jr : O. K.

D: I'll be right after it.

H.M.Jr: All right.

D:

H.M.Jr: Thank you.

D: Thank you.

H.M.Jr: Good-bye.

June 3, 1940  
12:06 p.m.

H.M.Jr: Hello.

General Marshall: Mr. Secretary, General Marshall.

H.M.Jr: How-do-you-do.

M: Good-morning, sir.

H.M.Jr: General?

M: Yes.

H.M.Jr: Am I right -- ah -- that this question of selling these separate guns and ammunition have reached --has not made any progress?

M: No, sir. I've gotten the -- had the, whoever the Allied purchasing agent is, agent over here with me. I've gotten him in with General Wesson, I've been working out all the details and I've got the amendment to the law now before the Committee today.

H.M.Jr: Yeah, but I thought that Woodring was going to get a letter from the Attorney-General.

M: Well, Mr. Woodring went into the letter. Now, Mr. Woodring isn't here right now. What his answer is I don't know, but I'll check up on that. He's in Kansas City and gets back tonight.

H.M.Jr: Well, could you check up on that?

M: I'll check up and let you know.

H.M.Jr: Well, at 4:00 o'clock.

M: Yes, I'll have that then.

H.M.Jr: And the other thing was, I thought they were going to pack up that stuff -- the Army was, so that .....

M: We arranged -- I had them brought -- I had Mr. Purvis brought with all these people to General Wesson to figure out the most expeditious way of handling it, and how we would get

- 2 -

the thing across to make the shipment -- in order to do it, and to find out from Mr. Purvis if he had any -- if he had any particular intermediary in view that we could make the initial dickers with. But I'll check up on all of that and get it back to you.

- H.M.Jr: Well, I'm right. I talked to Purvis. He got nowhere.
- M: He got -- he got nowhere.
- H.M.Jr: That's my impression.
- M: Well, then I'll -- I'll talk to you at 4:00 o'clock.
- H.M.Jr: That's why I was calling the meeting and I thought I would give you a little warning.
- M: Yes. Well, all right.
- H.M.Jr: I understand, well, to use slang, he just got the run-around.
- M: How's that?
- H.M.Jr: I understood he just got the run-around.
- M: No, I don't think he did at all, sir. Not at all. There were one or two things we had to get out of Mr. Woodring that we had to get to these people with. We had to get some -- some basis of the operation which they were to get out of their discussions, and I'll get at the thing right now again before I go in the next hour.
- H.M.Jr: Would you do that?
- M: Yes, I'll do it.
- H.M.Jr: Because I got the impression that he got nowhere.
- M: I gave him the list and told him what the thing was, gave him the whole description, told him we needed the adjustments to make with

- 3 -

General Wesson -- we have to arrive at certain things as a basis for that operation acceptable to Purvis and acceptable to Wesson, because there are about four or five different things involved in there. But I'll get at the whole business right away.

H.M., Jr: Thank you so much.

June 3, 1940  
2:34 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur Purvis: Arthur Purvis.

H.M.Jr: Hello.

P: How are you?

H.M.Jr: Hello, Arthur Purvis.

P: Yes, how are you?

H.M.Jr: I'm all right. I've called a meeting at my office at 4:00 o'clock with Sumner Welles, the Attorney-General and General Marshall on this surplus material.....

P: Good.

H.M.Jr : ..... because I'm not satisfied. I got the General quite mad this morning by saying that he had given you the run-around.

P: (Laughs) Yes.

H.M.Jr: And I wanted to be sure of my facts, because he got quite annoyed at me which was all right, and said that you -- he'd put you in touch with General Summerville -- is that the man's name?

P: General Wesson.

H.M.Jr: What?

P: General Wesson and General Harris.

H.M.Jr: Well, did you get anything out of either of them.

P: Well, no. You see, what General Wesson said -- I understood from the Chief of Staff that the

job I had to do with Wesson was to discuss with him ways and means for effecting this transfer if, as and when it became possible to make it. I, therefore, went along that line with him and he had a list in front of him which covered, he said, not only particulars of what they expected to declare surplus, but also the prices they would expect for it and so on. And he also had a list of the things that he wanted to buy, I gathered, with the money that we would pay for the ones that they sold to us. But he told me -- he said, now I can't show you this list and I can't tell you the names of the brokers whom we believe we would be well advised to deal with. He said, I think if we can deal with one person you'll get quicker results. I said, well, that sounds reasonable. So he said, the type of firm that I have in mind is one I'm sure that will suit you when you hear their name, but I can't give you their name yet, nor can I give you this list. Well, I don't know whether that list was different from the one that General Marshall had given me, which he said was an incomplete one because he didn't want to put certain things down though he talked them with me, such as old guns and powder and so on. But then, he said he couldn't show me the list at that time, and I understood that until this change -- until the defense bill was through in Congress, we were sort of held up.

H.M.Jr: Now that is absolutely not true. The orders which they were given were that they should begin to pack that material which they said would take five days.

P: Oh.

H.M.Jr: So that at the end of the five days, the stuff would be packed and be ready to be shipped, because it will take five days to get the bill through.

P: Yes.

H.M.Jr: And that's what they were told.

P: I see.

H.M.Jr: And they didn't do it and I'm good and sore, and so is the President, and I've got the

authority to tell them before sunset tonight, by God, they're going to do it or somebody's going to get hurt.

P: Well, the -- of course, we -- I immediately took a chance and though I didn't want to raise hopes unduly, I cabled the list to Monnet and included the verbal items which the General couldn't give me specifically on paper. I did them as best I could from a verbal statement, and Monnet rang me and said that we're interested in the whole damned lot. You see?

H.M.Jr: Well, you bring that stuff down tomorrow, but, by golly, something's going to happen between 4:00 and 5:00 tonight in my office.

P: (Laughs) Well, I don't -- of course, as you know, I'm very anxious to -- to play the hand in whatever is the proper way and I, naturally, tried to play along with them, and I -- the General explained -- the things, of course, that I'm most worried about are the ammunition for the various items.

H.M.Jr: Well, by tomorrow or this evening we'll have something and if I have anything definite, I'll have Phil Young call you.

P: Yes.

H.M.Jr : Now the other thing -- ah -- I wanted something else -- ah -- oh, yes. On this broker business, see? Hello.

P: On the what?

H.M.Jr: On this question of having a broker .....

P: Yes.

H.M.Jr: I didn't like it at all and I have a suggestion which I think is a very good one.

P: Yes.

H.M.Jr: And that is that we use the American Express Company.

P: Oh, yes. That's a very fine type of one. Do you think that was the one they had in mind?

H.M.Jr: Oh, I'm sure it isn't.

P: That's -- that's an excellent -- I mean, that has a whole to it.

H.M.Jr: Because after all we can publicly say they're forwarding agents.

P: Yes. Yes, that's an excellent idea.

H.M.Jr: I thought it was good.

P: Oh, I think -- I think -- I don't think there could be anything better than that. That has a whole connotation that would be most valuable.

H.M.Jr: That's what I thought, and then, I don't want to be part and parcel of using a broker.

P: No. I must say Wesson said -- he said, of course, we'd much rather not do it, but he said on the other hand we think we -- it's the best way to get things quickly for you. And he said, you'll be quite pleased with the name when I give it to you.

H.M.Jr: Well, I don't know the name, and he didn't .....

P: He said he couldn't give it to me.

H.M.Jr: And he didn't give you any list.

P: He gave me no. The only list I got was the one I got from the Chief of General Staff himself. It was a partial list and then Wesson had a great big sheet of paper in front of him which was four times the size of the one that the General had shown me, but he said he couldn't show it to me. Really, as a matter of fact, what I -- everything I got, I got from General Marshall. After that it was merely a question of trying to cultivate some good will with the other two men, pending their being in a position to go forward, and the technical fellows that I had there, there was nothing for

them to do at that stage. You see? So they all went back again. But I don't wish to give any impression that I wasn't most courteously received. I was.

H.M.Jr: Well, that's all very nice but that doesn't get you results. Look, you do the courteous stuff and let me be the rough guy.

P: (Laughs) Well, I frankly felt that I must play it out that way, feeling that you would keep on pushing where you could.

H.M.Jr: Well, we will and the other thing that you may be interested in knowing is that the President wants me to continue doing this work on the foreign purchases.

P: Thank God for that.

H.M.Jr: Well .....

P: (Laughs) Those are my very sincere sentiments.

H.M.Jr: Well, anyway, while you consider -- you continue being a light and I'll be the rough diamond.

P: All right. (Laughs) Thank you very much. Shall I come down tomorrow?

H.M.Jr: Oh, definitely. I'm counting on you for lunch.

P: Oh, splendid.

H.M.Jr: And I'll have Nelson here at that time.

P: That will be splendid.

H.M.Jr: And then you can stay afterwards if there's anything to talk about.

P: All right. I'll come along at 1:00 o'clock if I don't hear from you.

H.M.Jr: Right.

P: Thank you very much, indeed.

H.M.Jr: Do you want to bring Bloch-Laine?  
P: Just as you say.  
H.M.Jr: Well, that's up to you.  
P: All right, fine.  
H.M.Jr: And, by the way, could Jacquin be around from 2:00 o'clock on?  
P: Jacquin from 2 p.m. on. Yes, I'll have him.  
H.M.Jr: Why not have him at the office here?  
P: All right. Is there any hope for him.  
H.M.Jr: How do you mean?  
P: Any hope for any planes?  
H.M.Jr: No, but I want to talk engines to him.  
P: Want to talk engines.  
H.M.Jr: Yes.  
P: All right, I'll tell him.  
H.M.Jr: I -- I want to talk engines with him.  
P: All right, I'll tell him.  
H.M.Jr: Well, if I don't hear from you, I'll set the table for Bloch-Laine.  
P: Thank you very much.  
H.M.Jr: Right.  
P: Much obliged.

June 3, 1940  
3:55 p.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

William Knudsen: Yes.

H.M.Jr : Hello. Morgenthau speaking.

K: Yes, sir.

H.M.Jr: Mr. Knudsen, at lunch with the President, I went over the whole situation and told them about this conversation this morning, and it's entirely agreeable with the President that I turn everything over to you. But as far as the airplane thing goes, he'd like to announce that himself tomorrow at his own press conference.

K: I don't understand.

H.M.Jr: The President is going to announce it himself tomorrow.....

K: Oh, yes.

H.M.Jr: ..... at the President's press conference on Tuesday afternoon. And he is going to explain it to the press himself that I'm going to turn over what I've been doing to you.

K: Yeah. Thank you very much.

H.M.Jr: But he will explain it himself at his own press conference on Tuesday.

K: Yes, Mr. Morgenthau.

H.M.Jr: How's that?

K: Fine, thank you.

H.M.Jr: Now, I have here a couple of letters that my boys wanted me to send to the Army and Navy. See?

K: Yes.

H.M.Jr: And before I send this, I'm going to send it over to you and if you'll just write across it, O. K., or please hold, whichever way you like .....

K: Yes, sir.

H.M.Jr: But it has to do with planes and I don't want to send it unless it's agreeable to you.

K: All right, sir.

H.M.Jr: And I'll send it over -- I won't bother with any letter. I'll just mark it outside, Mr. Knudsen, and send it over and you can send it back to me, please hold, or O. K. Will you?

K: Yes, Mr. Secretary.

H.M.Jr: Thank you. And any time now, just give me a ring.

K: Well, I -- yes, I expect to come over and see you again.

H.M.Jr: O. K.

K: Thank you.

June 3, 1940  
4:37 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur Purvis: Hello.

H.M.Jr: Hello.

P: Good afternoon.

H.M.Jr: How are you?

P: Very well, thank you.

H.M.Jr: Look -- just a second. I want General Marshall to listen to this.

P: Yes.

H.M.Jr: I have a list here before me and -- of materials -- and he'd like you to tell me which things that you'd like first. See? Hello.

P: Which we'd like first.

H.M.Jr: Yes.

P: Well, he told me on the telephone today .....

H.M.Jr: Who did?

P: Monnet told me on the telephone today that a cable was on the way to me giving me my reply on that priority question.

H.M.Jr: Uh-huh.

P: So that it's just a question whether we should bid tonight or whether I should wait until tomorrow morning for it. I'm quite prepared to say straight away, for instance, that the machine -- that the 500 guns, the 75 millimeter guns, I'm sure is something they want straight away, all the 303 ammunition that they can get

and twice and three times as much straight away.

H.M.Jr: Just a minute -- just a minute. Hello.

P: Yes.

H.M.Jr: The question the General wants to know -- are these 75 field guns going to the British or French?

P: Yes. As a matter of fact I think they'll -- we have the demand from both ends and I think there's going to be a small war in London which Monnet has got to settle as to which gets the benefit of them.

H.M.Jr: Well, if you can get 500 of those 75 millimeter guns, you'd like that first.

P: Yes. I think perhaps there's one thing in front of that. Perhaps, the 30 ball ammunition might be even more important than that.

H.M.Jr: Well, now, would you mind holding on a moment?

P: Yes.

H.M.Jr: (Talks aside to General Marshall ..... get on the phone and you can talk to him too. See? You can talk and ask your own questions. Yes, on the same phone.)

General  
Marshall: This is General Marshall speaking.

P: Oh, yes, General. The ball ammunition we would like to get just immediately.

M: Well, now, you're speaking of .30 caliber -- .30 ammunition?

P: Yes. Well .....

M: Well

P: We need all of the ammunition of that kind that we can get.

- 3 -

- M: Well, now, what weapon do you use that in?
- P: Well, the assumption is that the .30 will go with some of your .....
- M: Yes, well, that's what I'm getting at. Unless you have the Enfields you don't want the ammunition.
- P: We'll want the Enfields too. Yes.
- M: Well, I know, but you've got to have the enfields in order to want the ammunition.
- P: Yes. Of course, the Enfields -- the only point there is that the Enfields are rather out of proportion in number to the amount of ammunition.
- M: Yes. Well, what I'm trying to get at is, when you say your priority is .30 caliber ammunition, you have to qualify that by saying that you must have the weapon or you don't want the ammunition. Am I right?
- P: Absolutely true.
- M: Now of the weapons, which are the first priority?
- P: Well, as I was just saying to Mr. Morgenthau, Mr. Monnet has cabled me saying -- telephoned me saying the cable giving the particulars is on the way to me now.
- M: Yes.
- P: If I had to guess tonight before that gets here, I would say that the rifles, at least say 200,000 of them, even if we couldn't get the whole lot, all the ammunition and the field guns and I should say that the Browning machine guns would all be very .....
- M: Browning machine guns .....
- P: Yes.
- M: ..... rather than the automatic rifle.
- P: And the automatic rifle, I think.

- 4 -

M: Well, you're putting that on the same priority.

P: I think so, yes. As a matter of fact, as far as I know, all the things in that statement that you gave me -- the first four items anyway, and then the item covering the ball ammunition are all in the same grade. The only items I would have -- I think it might be wise to wait until tomorrow would be the mortars, though I'm pretty sure they'll be wanted, because Monnet said that everything on the list was very interesting, and of course it's a little difficult on the Lewis, Vickers and Marlin machine guns. It might be wise to wait for the cable.

M: Well, all right, I've got that down. Thank you very much.

P: Thank you, General.

H.M.Jr: Hello.

P: Yes.

H.M.Jr: Just a moment, please. (Talks aside)  
Well, thank you very much. Hello.

P: Yes.

H.M.Jr: I think if you would do this, if you could telephone to Monnet .....

P: Yes.

H.M.Jr: ..... that Mr. Welles, General Marshall and I and the Attorney-General are breaking our necks to try to do this, and we're not letting any grass grow, that it's very, very difficult on account of the law and would he please get that word to Ambassador Bullitt.

P: Yes, yes.

H.M.Jr: See?

- 5 -

P: Yes, I will.

H.M.Jr: But I wish you'd please call him still tonight and tell him we're doing everything humanly possible to find some way -- as I told you the story about General Marshall and how he got his Chinese students paid for.

P: (Laughs) Yes, I remember. And I have that same feeling of confidence.

H.M.Jr: Well, if he could do that, he can do this. But please tell Monnet we're just as sympathetic as we can be. Mr. Woodring will be back in the morning and General Marshall is going to see him at 9:00 o'clock .....

P: Yes.

H.M.Jr: ..... and would he please get that word to Ambassador Bullitt that no stone is being left unturned.

P: I will. I'll telephone him straight away now.

H.M.Jr: Will you? And this amendment that we're counting on, we think this amendment will be introduced this afternoon on the floor of the Senate.

P: Oh, really.

H.M.Jr: Yes.

P: Good.

H.M.Jr: The plan is that the amendment which will make it possible to do this will be introduced this afternoon.

P: Very good.

H.M.Jr: So everybody is straining every nerve to come through.

P: Thank you very much. Ah -- may I ask you one other thing? On the -- is there still -- is there no chance yet on the -- is the position in regard to airplanes unchanged?

- 6 -

H.M.Jr: Well, as far as I know. Now, just a moment -- let me ask General Marshall. (Talks aside) There is no change, unfortunately, on the airplanes.

P: No, or on the destroyers, I suppose.

H.M.Jr: No, I think the President crossed that about a week ago. The President, himself, is firm on the destroyers.

P: I see.

H.M.Jr: But you did get 20 of the speed boats.

P: Oh, yes, and appreciated them tremendously.

H.M.Jr: Yes. When do those deliveries start?

P: July, I believe, and finish in December.

H.M.Jr: Good. But on the destroyers, the President, himself, is -- has said no on that.

P: I see.

H.M.Jr: I say the President has said no on the destroyers.....

P: I see.

H.M.Jr: ..... and he's quite firm on it.

P: I see.

H.M.Jr: Right.

P: Thank you very much.

H.M.Jr: Thank you.

Copy

E.S. Greenham Sent this 2/24/44  
I don't know if he  
did use it.

It is well to remember the President's statement that our Army and Navy are at the peak of their peace-time strength. Recent events have made it imperative to increase this strength far beyond any prior peace-time requirements. Realizing that such a condition might arise, the Government has not been idle. It is fully prepared for the problems now confronting it.

In normal peace-time, industry is able to meet the normal peace demands of the Army and Navy for production of material. But when these demands are vastly increased, far beyond normal requirements, industry cannot be expected to be geared up one hundred fold overnight. Such an emergency requires that the Government aid industry to do its share. Government funds must be available to stimulate production, and it becomes the responsibility of the Treasury Department to meet the problem of financing to aid production. As Secretary of the Treasury I have been charged with this obligation. I also was specifically directed by the President to take all necessary steps looking towards the necessity for vastly increased production of airplane engines. I have followed these instructions and in cooperation with the War Department and the Navy prepared for such increased production. To this end I have kept in close touch with Allied purchases. The most expert advice has been secured from those best equipped to give it, whether in or out of Government service.

Mead was appointed as Assistant to the Secretary. His experience as head of Pratt and Whitney, manufacturers of airplane motors, has made available to the Government one of the best qualified persons in this important field. Nelson resigned his position as Executive Vice President of Sears Roebuck and Company to become Director of the Bureau of Procurement. As director, he is now the head of the Bureau responsible for Government purchases, and has under him an able and highly trained staff. Mr. Nelson's qualifications and well-known talents are now serving his country in their most useful field.

We have been preparing for an emergency. The time has now arrived when it is deemed necessary to take the steps for which we have prepared. Mr. Knudsen and his associates have been called to Washington to aid in this work. To Mr. Knudsen has been assigned the extremely important task of speeding up production. This morning I conferred with him with particular reference to airplane engines, and told of the steps that had been taken in anticipation of the present conditions. I advised him that I, together with all the members of the Treasury Department were ready to work with him at any time, and that all our facilities were at his disposal. The Treasury Department feels gratified that Mr. Knudsen and his associates are to work on these all-essential duties.

June 4, 1940

My dear Mr. President:

Since having lunch with you yesterday, the following information in regard to the Allison engine has been brought to my attention, which is in contradiction to the information which I gave you at lunch.

I had a talk with Mr. O. E. Hunt, Chief Engineer of General Motors, this morning and told him that I hoped that General Motors would begin soon to take this Allison situation seriously. Up to now, I gather, Mr. Hunt has had very little to do with the Allison motor, but he gave me his personal assurance that from now on he intends to concentrate on the Allison motor until he has corrected the serious defects.

Yours sincerely,

The President,  
The White House.

June 4, 1940

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Yours sincerely,

The President,  
The White House.

COPY

TREASURY DEPARTMENT  
Inter-Office Communication

*orig to Pres  
6/4/40*

189

Date: June 4, 1940

TO: Secretary Morgenthau  
FROM: Dr. George J. Mead

The two Allison engines which were run respectively at Dayton and Indianapolis with a reduced power rating of 950 hp. instead of the contract rating of 1090 hp., completed 50 hours as reported to you on May 31. Based on the completion of these tests, it seemed reasonably safe to release engines for production at this reduced rating. In view of the large number of failures in the past, however, it was thought desirable to take two additional steps: first, to tear down both engines completely and make a thorough examination of the parts, and secondly, to continue the tests of these engines, if found to be in good condition, to 100 hours each. Yesterday afternoon the tear-down reports became available and it was found that the Dayton engine had two cracked connecting rods and that one of the crankshaft bearings had failed, while the Indianapolis engine had a failure of the supercharger drive at 16½ hours, which required a penalty run, making a total of 70 hours on the engine when disassembled for final inspection. At that time the following main castings were found cracked: the reduction gear housing, the crankcase and the accessory housing. These failures throw an entirely different light on the situation and, in view of them, I called Mr. Sloan immediately with the result

To Secretary Morgenthau

-2-

that Mr. O. E. Hunt, the chief engineer of General Motors, is here today to discuss a program of correcting the troubles in the quickest way possible. I will advise you just as soon as a definite plan of action has been determined.

(Signed) George J. Mead

PARAPHRASE OF TELEGRAM RECEIVED

London

Secretary of State,  
Washington.

1495, June 4, 2 p.m.

MOST CONFIDENTIAL FOR SECRETARY MORGENTHAU AND THE  
SECRETARY OF STATE.

I am informed by Beaverbrook that the best engine,  
of which plans are already in the United States, is the  
"Centaurus". Two of these are already working with amaz-  
ing results. We can have them if we want and please ad-  
vise me quickly.

KENNEDY

TO THE SECRETARY  
OF THE STATE  
WASHINGTON

JUN 15 1945

RECEIVED  
SECRETARY OF STATE

1495 *have 34 got*

192

**IS ANSWER NECESSARY:**  
**ANSWERED BY:**  
Distribute to:

Secretary	Capt. Puleston
Mr. Bell	Fed. Res. Bd.
Mr. Cochran	Mr. Harrison
Mr. Dietrich	Legal Div.
Mr. White	Card
Mr. Cotton	RETAIN

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

DATE: June 4, 1940

STRICTLY CONFIDENTIAL FOR AMBASSADOR  
KENNEDY FROM SECRETARY MORGENTHAU

Reference is made to your telegram no. 1495 of  
June 4, 2 p.m.

Will you please extend our thanks to Lord  
Beaverbrook for the very kind offer which he made.  
Please inform him, however, that we are not interested  
in the "Centaurus" if it is an eighteen cylinder engine  
made by the Bristol Company.

HULL

EA:EB

June 4, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"AMERICAN EMBASSY LONDON.

STRICTLY CONFIDENTIAL FOR AMBASSADOR KENNEDY FROM SECRETARY  
MORSE.

Reference your No. 1495, June 4, 2 p.m.

Please thank Lord Beaverbrook for his very kind offer but  
inform him that if the "Centaurus" is an eighteen cylinder engine  
made by the Bristol Company we are not interested in it."

  
EMC:enk:6.4.40

NAVAL MESSAGE  
(NAVY DEPARTMENT)

195

From _____	ACTION	To _____	Write A.C.K. after address requiring acknowledgement.
Released by _____ <small>(Signature)</small>		To _____	
Date 4, JUNE 1940	INFORMATION	To _____	
NITE to _____		To _____	
ROUTINE to _____			
PRIORITY to _____			

(DO NOT WRITE IN THIS SPACE)

THE SECRETARY OF THE TREASURY <sup>TEXT</sup>--

ONE HISPANO-SUIZA 12 CYLINDER ENGINE WILL BE SHIPPED EITHER ON SS WASHINGTON LEAVING BORDEAUX 8 JUNE OR ON FRENCH STEAMER DEPARTING ABOUT SAME TIME X ENGINE WILL BE ADDRESSED DAYTON OHIO BUT PAPERS WILL COME TO YOU VIA WASHINGTON X SHIPMENT MADE ACCORDANCE YOUR REQUEST X THE MINISTER FOR AIR GAVE ME THIS INFO TODAY

BULLITT

*C.B. Bullitt*

Make original only. Deliver to Communication Watch Officer in person. (See Art. 76 (4), Navy Regulations.)

June 4, 1940.  
3:15 p.m.

RE ALLIED PURCHASING PROGRAM

Presents: Mr. Foley  
Mr. Young

H.M.Jr: Ed, tell me what happened after dark.

Foley: Well, we went back to my room, as you know. We stayed there until about seven o'clock. General Marshall and Francis Biddle and Pehle and Oscar Cox and Huntington Cairns and I were there. We discussed the situation with General Marshall so that all of us understood it a lot better than we had when we were in here and we got together on the different approaches that we had to the problem. We found out from General Marshall that all of the guns and the materiel other than the ammunition, the Army had in its possession prior to July 11, 1919, which made it possible to dispose of it through sale without public advertisement under the Statute.

H.M.Jr: What is the significance of that date?

Foley: The significance of that date is that the Secretary of War was given power in an act passed right after the World War to dispose by sale upon such terms as he deemed -- property that he has then on hand, when the Statute was passed, so that this property other than the ammunition, which I will mention later, could be sold under that Statute without any public advertisement and it was simply a question of ascertaining the fair value by appraisal of that property and the Secretary of War could get rid of it. That was under existing law without any amendments or without any new legislation.

Insofar as the ammunition is concerned, he didn't want to declare it was surplus because he didn't have enough ammunition, but the ammunition was either unusable

or it was deteriorated and where he has deteriorated or unserviceable or unusable ammunition, he can turn it back to the manufacturer, get a credit, and then get new ammunition and we pointed out to him that under that power which was conferred on the Army in 1926 he could work out an arrangement whereby the powder that he had on hand which would become deteriorated or unserviceable in another year or two -- he doesn't know when he is going to need it -- could be turned back to Hercules or Atlas or whichever powder company he wants to deal with insofar as future orders are concerned, and then they could dispose of it to the British purchasing commission and give them a credit for the amount that the British purchasing commission paid to Hercules or Atlas on account of future deliveries of such powder.

The Attorney General and ourselves worked out an opinion which he signed, together with a memorandum explaining how the Secretary of War could operate under the opinion to effectuate the plan that we discussed.

We went over this morning and talked to Marshall and Marshall had made up his mind when we got over there that he was going along and it was simply a question then of talking to the Secretary and get him in agreement, and that problem was relatively easy. Biddle was quite persuasive --

- H.M.Jr: Did Biddle give a formula?
- Foley: Yes, he gave a formula.
- H.M.Jr: Is it very long?
- Foley: No, it is two pages. (Handing document to Secretary.)
- H.M.Jr: Incidentally, is there anything -- you or Mrs. Klotz said something about having the Army people notified that Purvis is on his way down.

Young: I told them.

H.M.Jr: You have told them?

Young: Yes.

H.M.Jr: Oh, you are in touch with Mrs. Klotz?

Young: Yes.

H.M.Jr: Where did you do this, all in your office?

Foley: Yes. We gave him a memorandum, too, that --

H.M.Jr: Now, what happened this morning at the War Department?

Foley: Well, we saw --

H.M.Jr: Were you over there?

Foley: Yes.

H.M.Jr: Oh, good, I didn't know that.

Foley: Yes. Francis Biddle and Oscar Cox and Phil and I met over there in Marshall's office at a quarter of nine. Marshall had General Gullion, the Adjutant General of the Army, present. He was very much impressed by the fact that the Solicitor General of the United States was there, his superior officer. He said, "He is my supreme court and what he says goes."

H.M.Jr: Is that what he said?

Foley: Yes.

Young: Yes.

H.M.Jr: Is that what he said?

Foley: And the old general --

Young: He told the Secretary that, too.

H.M.Jr: Did he?

Young: Yes.

- 4 -

- Foley: He looked to the Department of Justice and what they told him, he didn't question. He told Woodring he was perfectly satisfied. The general is very practical and he started talking about getting this stuff on the cars and getting it shipped either to Canada or to Bayonne, New Jersey, where it could be stored until the British made up their mind what boat they wanted to put it on and work out the times. He said they had it all appraised. They knew what it was worth. So he could move any time, I think.
- H.M.Jr: Well, he was stalling for Woodring.
- Foley: Yes, he was stalling for Woodring's sake and he did say this, Mr. Secretary, and I admire him for it. Down in our office he took his hair down and he said, "Now, everybody in town is shooting at Woodring and trying to put him on the spot and I don't want to see him get on the spot. Everybody is trying to get him out of there and I am not going to be a party to it," which I think was all right.
- Young: He said he wasn't going to give anybody any excuse for it.
- What about the March order?
- Foley: That was very funny. Woodring -- I had seen Pearson's column yesterday and I didn't know where the thing had come from. I thought it might have come out of here and I thought that Woodring might think it had, anyway, and be sore. Well, apparently he hadn't seen this column but he had seen something in the Star last night which maybe wasn't as bad as this and he started right out by saying, "I don't know what that March order -- how that March order ever got out of here. When I signed that, I thought that I was merely putting the Secretary's office and the Assistant Secretary's office and all of the War Department on notice that they could not deal with representatives of foreign governments insofar as any property of the War Department had unless those

- 5 -

representatives were first accredited by the State Department. Now, I realize that it is no excuse to say that you are ignorant of the things that you sign, but that is what I thought that was when I signed it and it has gone much farther than I ever intended it to go and I suppose it ought to be changed or modified or repealed right away."

H.M.Jr: I didn't know about it when I saw it in the paper.

Foley: I thought he might have gotten it here.

Young: He told Burns to rescind it right away. Burns said, "Well, we were following higher authority when we issued it," and Woodring said, "Well, we are following higher authority now when we rescind it."

H.M.Jr: Is that what he said?

Foley: So they don't need any legislation, Mr. Secretary. The only difference the legislation makes to them is, they say that insofar as the guns are concerned the sales price which otherwise would go back into the Treasury and they wouldn't have the use of it -- if they get this legislation, they will be able to work out an exchange whereby they get a credit with some manufacturer for new guns that will be delivered to them in the future and they don't lose for national defense purposes the sales value of that property.

H.M.Jr: But they are going to begin to patch this up?

Foley: Well, that is what the general was talking about, right away. Phil stayed.

H.M.Jr: Who is in charge?

Foley: Phil is in charge.

H.M.Jr: Who is in charge over there?

- 6 -

Foley: Colonel Burns, wasn't he?

Young: Burns, yes. He has been designated as the contact fellow for this new advisory counsel and the Treasury.

H.M.Jr: I got the President to sign that letter yesterday. He has also contacted Mr. Stettinius and "Sknudsen."

Foley: I thought maybe you might want to glance at that. It is on the same subject of what we have done today. It clears that situation.

H.M.Jr: What is it?

Foley: Well, that simply says that as a matter of law there is no objection whatsoever to turning in airplanes that the Army has now and getting credit for newer, more modern planes for manufacture.

H.M.Jr: They have been doing that. We did that.

Young: Turned in planes?

Foley: I thought they had refused to do that.

H.M.Jr: Oh --

Young: We haven't turned in any planes we had in stock.

H.M.Jr: Oh no. He said he wouldn't do it until he needed -- he said he needed those Curtiss P-36's.

Foley: It is only a question of policy. There is no question of law involved. This opinion of the Attorney General's, you see, overcame that Controller General's objection that you have to advertise for sale first before you could turn in used material in order to determine whether or not the sales price is higher than the turn-in value,

- 7 -

in which case if the sales price is higher you have to take the sales price and you can't turn it in. This opinion holds that you can turn it in and you don't have to advertise. You don't have to determine whether the sales price is higher. This opinion gets over that.

W.M.Jr: Well now, did you stay on over there?

Young: Yes, I stayed on because I wanted to get the thing down in black and white and see where this list was and Colonel Burns tried to jump the track. He said he was too busy to talk about it, he had a lot of conferences or something, and I cornered him off and he said, "Well, just box it and ship it," and I said, "You are going to box and ship what?" Nobody knows. So then he turned me over to MacMoreland, Colonel MacMoreland.

B.M.Jr: Yes, he is a very good fellow, too, excellent. He gave him full authority to go ahead and work the thing out on the list.

H.S.Jr: Is Burns his superior?

Young: Yes. So we spent all the rest of the morning running around from General Wesson, who, by the way, could use a little help, to General Moore, back to General Wesson, to the various colonels in this, that and the other division and so on and so forth for the reason that they didn't have all the prices on the list, all the prices had not been approved by the Secretary of War. The quantities were not accurate on the list which they had on hand due to the fact that they had made sales to Brazil and some other South American countries that hadn't been taken out of one or two of those amounts and in addition they left out the whole question of accessories to go with the guns, which are necessary for the operation of the guns, and no prices have been put on those.

- 8 -

So after about two hours of hard dog trotting around in the War Department, I got the accessories list, quantities, prices approved by Mr. Woodring --

H.M.Jr: He approved them?

Young: He approved them. I got the list brought up to date of the surplus guns and ammunition which they had with the prices for those which the War Department would take. Those are the prices which, if this stuff is turned in to a manufacturer, the War Department has got to get credit for. It does not represent necessarily the price that Purvis will have to pay for the stuff if your middle party charges any sort of a commission.

H.M.Jr: They shouldn't.

Young: He shouldn't do it. But anyway, it gives Purvis a darn good indication of where he stands on it.

H.M.Jr: Now, when Purvis comes in who will you send him over to?

Young: I am going to be there.

H.M.Jr: But I mean --

Young: MacMoreland. He has these lists all signed of quantities, items --

H.M.Jr: You don't think he ought to start with Marshall, Marshall receive him and then turn him over to Colonel MacMoreland?

Young: Oh no, we are all clear on the seniority and ranking ends of it now.

H.M.Jr: I think you boys did a nice job.

Young: All we have to do is to sit down with Purvis -- I guaranteed to MacMoreland that I would deliver Purvis and Purvis would do business.

- 9 -

- H.M.Jr: I told him over the 'phone to take everything and don't argue.
- Young: The Brazilians and Venezuelans and Bolivians are in town and they are all after the stuff.
- H.M.Jr: Well, get it first.
- Young: They are after it right now and they are going to take it.
- H.M.Jr: Not if Purvis gets it this afternoon.
- Young: But he had darn well better take it. Telegraphic orders will go out tonight to start the boxing and shipping.
- H.M.Jr: What is the Solicitor-General's name?
- Foley: Francis Biddle.
- H.M.Jr: We will do a little saddle oiling right now.
- Foley: Sure, because he is all right.
- H.M.Jr: He has got to do that. The President wants it.
- Young: What they are planning on doing with that stuff, they are going to ship it all into the Haritan Arsenal at Bayonne and concentrate it there. Some of the powder is down in New Mexico. Most of the guns are out at Rock Island, Illinois. They are scattered all over the darn place. That is another thing I got this morning, the location of where each item was so I know just where it is and how long it will take to get it.
- Foley: This business about having an Assistant Secretary of War, Assistant Secretary of Commerce set up as an intermediary --
- H.M.Jr: Between who?
- Foley: Between the British purchasing commission and the Army. Welles talked a little bit about it yesterday, you remember. I think that would be very, very bad.

- 10 -

Young: You put your foot on it, Woodring put both feet on it at that meeting this morning and squashed it.

Foley: It ought to be squashed.

Young: That is what Wesson said.

(Telephone conversation with Francis Biddle follows:)

June 4, 1940  
3:22 p.m.

H.M.Jr: Hello.

Operator: Mr. Biddle.

H.M.Jr: Hello.

Biddle: Hello.

H.M.Jr: Henry Morgenthau.

B: Yes.

H.M.Jr: I just want to tell you how much I appreciate all the help you gave us yesterday.

B: Oh, I think that's terribly nice of you to say that. Judge Townsend is sitting with me and he says he appreciates it very much.

H.M.Jr: I see. Well, I'd like to thank both of you, but it certainly was magnificent what you did and the fact that you stuck right to it.

B: Well, we went over there at a quarter of nine and just -- I saw the -- the mountain rising, you know, of these old women that were standing around, but we just told them they had to do it and then somebody -- two or three of them kicked about the Comptroller General. I said, to hell with the Comptroller General, I'm the Attorney General. (Laughs)

H.M.Jr: Good for you.

B: Well, I appreciate it very much. I hope we have another seance -- I like it.

H.M.Jr: I guarantee you more.

B: All right, old man.

H.M.Jr: Thank you.

B: Awfully nice of you to call.

H.M.Jr: Thank you.

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H.M.Jr: Whose idea was this thing?

Foley: Welles mentioned it yesterday, about having one agency that would handle the procurement from the Army of all these materials and the sale of them to the British purchasing commission. Now, once you start that, you are going to arouse the suspicion of the people on the Hill that somebody's palm is being greased.

H.M.Jr: I am going to write a letter to the President now about it.

Foley: If it is done directly, Mr. Secretary, with the manufacturers and they are given credit for the turn-in value of the used materials to be applied against future deliveries of new material for the Army, I don't see how anybody can criticize it. The only thing you will have to get is the fair turn-in value of the goods. The only other thing that we have to be careful about in working out this detail is that -- is this detail, that the records show that it is a bona fide Attorney General's decision.

(Mrs. Klotz entered the conference.)

Klotz: Mr. Purvis is coming in at a quarter of four at the airport and will you let him know where to go?

Young: I haven't notified the airport.

Klotz: It is almost three thirty. Is he to come here? I will be glad to do it.

H.M.Jr: Yes.

(Mrs. Klotz left the conference.)

(Telephone conversation with Secretary Woodring follows:)

June 4, 1940

3:27 p.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Secretary Woodring: Yes.

H.M.Jr: Henry talking.

W: Yes.

H.M.Jr: I want to thank you so much for finally having cleared up this mess on the sale of surplus materials.....

W: Well .....

H.M.Jr: ..... and everything's all right and I'm just writing a letter to the President saying everything is in order.

W: Yes. Now, Henry, I was going to call you and -- Mac Johnson came in here and wanted to see me and I couldn't see him I was so busy with this group in here, and he came back and I was still busy, but he sent in a note to me. He said,

"Dear Mr. Secretary:

It is my understanding that the sale of Army surplus goods and equipment and munitions has now been thrown open to the Allies. As this is a matter of utmost importance to my organization (he's with United Press) I would appreciate anything that you could say on this subject. My information, I think, is thoroughly reliable but they suggested that I take the matter up with you directly because of the fact that you are the responsible authority," and so on and so on.

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Well, now I wouldn't see him, I didn't -- I couldn't -- I told the operator to tell him I couldn't talk to him, so I was talking to "Pa" Watson though about their other program and I told him about this note and told him to tip off the President that they might question him at 4:00 o'clock at his press conference.

- H.M.Jr: Right.
- W: Now he said, why don't you just tell Mac Johnson to see Henry Morgenthau, he's handling it.
- H.M.Jr: Who said that?
- W: "Pa" Watson.
- H.M.Jr: What a pal he is.
- W: What a friend he is, huh? So carrying out instructions I told them out there to tell him to see you. (Laughs) Now, look .....
- H.M.Jr: (Laughs) Go to Kansas.
- W: Yeah.
- H.M.Jr: (Laughs)
- W: Yes. But now I really do think maybe, Henry, that this thing ought to be out in the open, don't you?
- H.M.Jr: I think that I'll refer them to the Solicitor General.
- W: Yes. (Laughs) Yes, that would be a good thing to do. No, I really think that we won't have a bit of trouble on this .....
- H.M.Jr: Well, I seriously think that the matter being serious, and it is your responsibility. General Marshall told us that about a half a dozen times, and it's not my responsibility.
- W: That's right.
- H.M.Jr: I -- I think that the statement should be

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by the Adjutant General over there for you and be given out over there.

- W: I think that it ought to be out in the open.
- H.M.Jr: Yes, I do, but I -- if I may make a suggestion .....
- W: Yes.
- H.M.Jr: ..... I'd have the Adjutant General prepare a statement.....
- W: Yes. Exactly. That's exactly it.
- H.M.Jr: ..... and then give out a formal statement and at the same time you want -- you've got the opinion of the Solicitor General.
- W: Yes. Well, I'm glad to hear you say that because .....
- H.M.Jr: Well, that's what I would do. I'd have the Adjutant General prepare for you a very careful statement and then give it out. This is just the Allies, this is for sale to anyone.
- W: Certainly. Well, all right.....
- H.M.Jr: Just give the Allies three hours' start though.
- W: Yeah. Well, of course, we'll put that between the lines.
- H.M.Jr: Yeah. Well, I mean, if I may suggest, that's what I'd do, and I think the sooner the better.
- W: Yeah, I know and I do too. I think it's much better because if it gets out in the newspapers and they get to writing about it and like that, why they'll think we're trying to hide something.
- H.M.Jr: That's right.
- W: O. K.
- H.M.Jr: Thank you.
- W: All right, Henry. Good-bye.

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Foley: I would be very, very careful about that statement because we can't sell directly to the Allies.

H.M.Jr: No, but I said the Adjutant General --

Foley: What they do is their own business. Yes, I think that is absolutely right.

(The Secretary dictated a letter to the President to Miss Chauncey.)

H.M.Jr: When Purvis comes in, I will let you two gentlemen know and I will turn him over to you. Anytime that you get stalled on this thing, let me know, you see.

Young: MacMoreland has his orders to get that stuff turned out tonight.

H.M.Jr: By golly, if he stalls tonight and those telegrams don't go out tonight, you call me at home, I don't care what time it is.

Young: He can't let it stall to save his own neck.

H.M.Jr: If he does, it has been done before.

Foley: Who is he?

Young: MacMoreland.

(Telephone conversation with Sumner Welles follows:)

June 4, 1940  
3:35 p.m.

H.M.Jr: Hello.

Operator: The French Ambassador is with Mr. Welles.  
Would you rather wait.

H.M.Jr: No. He can listen to what I'm going to say.

Operator: Oh, all right, I'll get him on then. (Pause)  
Mr. Welles is calling.

H.M.Jr: Hello.

Operator: He'll be on in a minute.

H.M.Jr: Hello.

Sumner  
Welles: Hello.

H.M.Jr: Sumner .....

W: Hello, Henry.

H.M.Jr: I just want to tell you that thanks to -- ah --  
Francis Biddle and Foley and Philip Young -- they  
worked until after midnight last night -- and they  
got an opinion .....

W: Yes.

H.M.Jr: ..... and then they were over at the War Depart-  
ment at a quarter of nine and met with Woodring  
and Johnson, I mean, Woodring and Marshall and  
they got the thing straightened out. Purvis will  
arrive in Washington here any minute, he goes  
into his conference with the Army and the telegrams  
are going to go out tonight.....

W: Yes.

H.M.Jr: ..... stuff begins to move.

W: Well, that's tremendously satisfactory, Henry.

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H.M.Jr: And I thought you might like to know it with the French Ambassador there.

W: Very much so.

H.M.Jr: And I think that any of these other people that want surplus material, if you want to send them around, I think that we can take a little bit better care of it than anybody else can.

W: That's proof.

H.M.Jr: And after all tomorrow Mr. Nelson will arrive and between him and Philip Young, they can take care of it.

W: That's splendid.

H.M.Jr: But this having it go all over town and go on for months -- it's impossible.

W: Absolutely.

H.M.Jr: But it's done, I mean, I'm assured that the telegrams will go out tonight and stuff will begin to move.

W: That's very satisfactory, indeed.

H.M.Jr: And Francis Biddle was simply swell.

W: Well, he's awfully helpful.

H.M.Jr: Right.

W: Let me remind you of the importance of that last suggestion I made last night.

H.M.Jr: The last suggestion . . . . . (Laughs) I don't remember it.

W: It had to do with airplanes.

H.M.Jr: Oh! Oh, yes. Well, they're working on that, too.

W: Because I think that can be done immediately.

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H.M.Jr: O. K.

W: It may require a slight amendment, but it can be done immediately and I think it's of the greatest importance.

H.M.Jr: I -- I've got Foley here. I'll tell him now.

W: All right.

H.M.Jr: Thank you.

W: Francis Biddle, you remember, had that in hand.

H.M.Jr: Right.

W: Thanks, Henry. Good-bye.

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Foley: One hundred forty-four Swedish planes.  
Well, we drafted the legislation --

H.M.Jr: Let's finish this thing now. I want  
to say something that only you (Foley)  
and Schwartz should hear.

C  
O  
P  
Y

June 3, 1940

The Honorable,

The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the material set out in two lists submitted by you.

The material listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

"That \* \* \* the Secretary of War be, and he is hereby, authorized to sell any surplus supplies including motor trucks and automobiles now owned by and in the possession of the Government for the use of the War Department to \* \* \* any corporation or individual upon such terms as may be deemed best."

The provision that such surplus supplies may be sold upon "such terms as may be deemed best" undoubtedly gives the Secretary of War

power to sell without advertisement. American Sales Corporation v. United States, 32 F. (2d) 141 (C.C.A. 5th 1929); cert. denied 280 U. S. 574.

The act of July 9, 1918 (40 Stat. 850), as amended by the act of February 25, 1919 (40 Stat. 1173), limits the sales of guns and ammunition to other departments of the Government, to certain foreign states or governments, and to certain specified associations; but the act of July 11, 1919, SUPRA, supersedes these provisions as to supplies on hand on July 11, 1919, including guns and ammunition, if they are at any time declared to be surplus. Once such supplies are determined to be surplus, they may be sold under the act of July 11, 1919. Georgia Wholesale Co. v. United States, 84 Ct. Cl. 150.

As to exchange of ammunition, the act of June 1, 1926 (c. 435, 44 Stat. 680), provides:

"That the Secretary of War be, and he is hereby, authorized to exchange deteriorated and unserviceable ammunition and components thereof for ammunition or components thereof in condition for immediate use."

Under this statute the Secretary of War may exchange any deteriorated and unserviceable ammunition for other useful ammunition or components thereof without advertisement. All that is necessary to protect the Government's interest is the ascertainment of the fair value for the exchange. This ascertainment of fair value may be arrived at through an appraisal and the obtaining of an exchange value of not less than the appraised value. A determination thus made would not be subject to review.

Respectfully,

(signed) Francis Biddle  
Acting Attorney General

MEMORANDUM

June 4, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Conference at 9:00 p.m. in the Secretary's office. Present: Senator Harrison, Congressmen Doughton and Cooper, Under Secretary Bell, Commissioner Helvering, Mr. Stam and Mr. Sullivan.

The conference opened with a discussion as to the advisability of raising the increase in the debt limit from \$3 to \$4 billion. The Secretary said that yesterday the President told him at 2 o'clock that it would be all right to raise it. The Secretary then said that at 5 o'clock the President had phoned him and dictated the provisions of an excess profits tax, remarking that he didn't want the Republicans to beat us to it on this tax. Under the terms of the bill as outlined by the President, the first 4% earned by a corporation would be exempt. The next 1% would be subject to an excess profits tax of 10% and for each additional percentage of earnings there was an increase in the excess profits tax of 10% up to earnings of 14%. For 14 and all greater percentages, the excess profits tax was to be 99%. The President also suggested that dividends that had regularly been paid in the past (such as American Telephone and Telegraph 9%) should be exempt.

Congressman Doughton queried whether the bill should be changed in the House or whether we should take a chance of its being raised in the Senate. Senator Harrison spoke of the rapidly changing views in the Senate and said that he believed his Committee was strongly in favor of a substantial increase beyond the \$650 million to be raised under the pending bill. He said that he doubted if he could hold his Committee down to that amount.

Congressman Cooper suggested that we raise the amount of the bonds from \$3 to \$4 billion and make the same taxes effective for 7 years rather than 5. The Secretary and others present objected to this.

Senator Harrison stated that he was opposed to a war profits tax. Subsequently Congressman Doughton expressed the same view.

Under Secretary Bell said that the additional appropriations for the Army would cause the Treasury to be exhausted in December unless we receive the additional \$3 billion, and if we did receive it the Treasury would then have a balance until July 1, 1941. Congressman Cooper predicted that this bill would be repealed at the next session. Senator Harrison agreed with him and added that he thought a manufacturers' sales tax would be substituted therefor.

The Congressional members of the conference then suggested that personal exemptions be lowered to \$1800 for married people and \$800 for single people. At this point Mr. Stam was called in and the suggestion was made by Congressman Cooper that an additional title be added to this bill which would raise an additional \$400 million a year by broadening the base and increasing the surtax rates in the middle brackets. He recommended a provision in this bill that any revenue collected as a result of this bill over and above the requirements to retire the \$4 billion bonds shall go into the General Fund.

At this point the Secretary called the President on the telephone. The President said he was agreeable to postponing the war profits tax provided the Committees make it clear that they are going to enact one at a later date. Senator Harrison remarked, "If we get into a war we will have to pass an excess profits tax." He then agreed to have the Committee state that they are studying all tax questions, including that of war profits. Congressman Cooper then asked the Secretary to ask the President if this new proposal was satisfactory and the President replied, "Grand, go ahead. The main thing is to get it out of the House, get it passed."

JHS

June 4, 1940

4 p.m.

Present:

Mr. Purvis  
Mr. Bloch-Laine  
Mr. Ballantyne  
General Salmon  
Col. Gostling  
Mr. Young  
Mr. Foley

HM, Jr: Well, I don't know whether they have had a chance to tell you, but at 20 minutes past 12 last night they got a ruling from the Solicitor General of the United States that this surplus material can go forward.

Mr. Purvis: Good!

HM, Jr: Started at four in this office and ended at 20 minutes past 12.

Mr. Purvis: I hope it was still a good opinion after that exhaustive session.

HM, Jr: Yes. When General Marshall referred it to the Adjutant General -- the Solicitor General is so interested in this thing he went over himself -- he said, "How can you ask me when my superior is sitting here." He tries all our cases before the Supreme Court.

Mr. Purvis: Very good!

HM, Jr: You see, the Solicitor General outranks all of our Under Secretaries in Washington. So here is the situation, if you gentlemen -- you are going to go to Colonel McMoreland?

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Mr. Young: Yes, and his side kick. They are coming over. Mr. Franks.

HM, Jr: They are going to Mr. Young's office and then they are going to give you a list of materials, surplus material, and if you gentlemen will say yes, the telegrams are to go out tonight. The thing will go forward to the United States Arsenal at Bayonne.

Mr. Young: Raritan Arsenal.

HM, Jr: In the New York harbor area. And to hold it there, store it there, until you people say ship it on board some particular ship. That's in the Greater New York area.

Mr. Purvis: Is the stuff all there or will it be brought ....

Mr. Young: Scattered all over. Coming there as a temporary concentration point.

HM, Jr: I just want to say if you don't say yes to what you want, either Bolivia or Brazil is going to get it tomorrow morning.

Mr. Young: We are seeing the Venezuelans tomorrow morning.

HM, Jr: So this thing has just been cleared, so you have first chance, and I am not saying this because I have something to sell.

Mr. Purvis: No. Quite.

HM, Jr: Because we just tore ourselves apart to do this thing.

Mr. Purvis: Only one thing worrying us and that is the extent of the ammunition for the guns in question.

HM, Jr: You are going to get all the ammunition we have got.

Mr. Purvis: Can't ask more.

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Mr. Bloch-Laine: We could ask, but I don't think we could get it.

HM, Jr: The thing is this evening or never.

Mr. Purvis: That's all right.

HM, Jr: In the sense that South American countries will be here in the morning.

Mr. Purvis: I am feeling much stronger, I must explain, and as a consequence had lunch and at 20 minutes past 12 I shall be just as fresh as the Solicitor General.

HM, Jr: You will have to wear what your bankers do in England. That's the sort -- morning coat and striped pants. He arrived that way at 4. How did he look at 20 minutes past 12?

Mr. Foley: With his sleeves all rolled up.

Mr. Purvis: I think we are all prepared to handle the thing.

HM, Jr: The other thing we are working on -- I don't know how much chance is there of wrangling 144 Vultees out of Sweden into the hands of these gentlemen. Has anybody asked the Swedes?

Mr. Purvis: I think Jacquin.

Mr. Bloch-Laine: Jacquin is in close touch.

Mr. Purvis: With a little assistance it might be possible to handle this thing with the Swedes.

Mr. Foley: I think it is much better to do it that way than to get legislation, because it raises the question of priority of orders which we can do when war is imminent, but we can't do it without going to Congress and asking for the power when we are in a state of neutrality.

Mr. Purvis: Let me say something. I think

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Jacquin has always hoped the Vultees might be possible for you to take so we could get the Northrops which have assumed an importance in the picture which you can imagine. That would be, I believe, a thing he would want to register. I can see that the 144 dive bombers, which I believe are equivalent to Swedish bombers, happen to be of a type which would be much more valuable to us.

Mr. Bloch-Laine: Exactly.

HM, Jr: Let me tell you -- why not put all the pressure we can on the Swedes to release these 144 Vultees with the understanding they will be replaced by another 144 Vultees?

Mr. Purvis: Yes.

HM, Jr: Get that first. And once you have got that in your hands, then let's talk about swapping afterwards, but if you had these at least you would have something.

Mr. Purvis: That's right. That's right.

Mr. Foley: That's the way to approach it. Going down to the Hill on legislation, which we would have to do, unless you can work it out on a voluntary basis, is the last thing I think we ought to do.

Mr. Purvis: Yes. While we are talking planes, may I raise the question of the possibility of some of the bombers -- this is the priority and does not involve legislation and there were bomber deliveries coming in the next 3 or 4 months, which would also be very valuable and we could replace them later.

HM, Jr: We are going to get together tomorrow. Tell them to let you know when the gentlemen come from the War Department. I will talk until they come. You are coming in tomorrow at ten. At that time I hope Mr. Nelson will be here.

Let me tell you this: I sent back a message

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to Ambassador Kennedy that we did not want the Centaurus if it was 18 cylinder. My people say that if this is the 18 cylinder Bristol, we don't want it. We can hold the cable until tomorrow.

Mr. Purvis: I think it can go.

HM, Jr.: In the room here, I had the Air Attache from the British Embassy here and he said no, so I think his word will be as good as any plus my man here. That's the sleeve type engine.

Mr. Purvis: Yes.

HM, Jr.: And the French are sending me a Hispano.

Mr. Bloch-Laine: You want Jacquin tomorrow, because you wanted him, I think, the last time.

HM, Jr.: Yes, I would like to have him here because I would like to talk to him about what you people are going to do from now on on engines. If he's ready to talk.

Mr. Bloch-Laine: He can talk to you and he can tell you all he knows and I suppose he knows a good deal.

HM, Jr.: If you or the English have in mind placing any more orders for engines, or for Canada, then I would like to talk,.....

Mr. Purvis: Here's the status of that. I am going to send to Mr. Marshall the picture on trainers. When we met him after we left your office the other day, it was agreed that it was a very urgent thing on trainers, so this is the French and Canadian program on trainers very well put out. Then the idea was when he had read that memorandum he would meet Self and Jacquin and go over the trainer question and then have a preliminary talk on combat planes with a similar memorandum being given to him.

HM, Jr.: If they are ready, I would have it at ten in the morning, and have you any other air men?

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Mr. Purvis: In that case I would rather like Self, but he can't get here. However, we can get Jacquin here very easy.

You are talking about our requirements in addition to the new program on combat planes and engines?

HM, Jr: What I am talking about -- I understand you signed your last contract on engines.

Mr. Purvis: And on planes.

HM, Jr: So now if you want anything new and you know it -- does that go for trainers too?

Mr. Purvis: Trainers are a very special thing which are more immediate because orders are placed for the others.

HM, Jr: I have set aside 10 to 11 tomorrow morning and you can talk about anything you want to talk about.

Mr. Purvis: Could I raise one thing that is rather urgent now? Italy is on order here for various quantities of special alloyed steel.

Mr. Bloch-Laine: For airplanes.

Mr. Purvis: For airplanes. And our belief is it is extremely valuable and important to them and, of course, may be destined for Germany. We have obtained there is a willingness on the part of the five steel companies to let us by that provided they get word of some kind that it would be .....

HM, Jr: If you give me something on a piece of paper tomorrow, I can take care of that easily.

I have an accumulation and I don't know whether these are pending or not.

Mr. Purvis: Let me give you fresh ones.

HM, Jr: No. I am not going to let them out of my hand.

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Mr. Purvis: Couldn't do anything on rifle powder. Engfield guns, yes, except ammunition. He has only said so far 100,000,000 rounds. We are hoping to get more because 100,000,000 rounds, of which 20,000,000 go for rifles and 80,000,000 for machine guns, 5,000 rifles would only have a very few rounds of ammunition, but that has been done. Sub-machine guns, Thompsons, they haven't any. 75 m.m., 500 they can do and we are waiting to hear this afternoon on ammunition. On the T.N.T. he could give us perhaps 1500 tons new T.N.T. and 500 tons old stock. We would take them with the greatest pleasure. Then nitrocellulose, on that 5000 tons of old powder. Again I am to receive further particulars. With the exception of the rifle powders most of the specific things we ask here are covered. There are, however, some loose ends in regard to permissions and inspection difficulties and, of course, the airplanes and the destroyers.

(HM, Jr asked Mrs. Klotz to have ready for him tomorrow a letter in which General Marshall complained about inspection difficulties encountered by the U.S. Army.)

Mr. Purvis: Our trouble is we have to practically withdrawn our inspections. They have taken down the screens .....

HM, Jr: Do this tomorrow. Bring in a little agenda of things you would like to take up so I don't have to charge myself. It's up to you to keep after me until the desks are clear.

Mr. Purvis: Right! By tomorrow a certain amount will be out of the way.

HM, Jr: Let me know in the morning. I think I will just have those two fellows come in and shake hands.

(To Lieut. McKay: Mac, ask the two gentlemen to come in. Colonel McMoreland and Major Franks.)

HM, Jr: When you come in in the morning. I

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emphasize the important of your having a man standing by the Chief of Ordnance on the teletype machine to get messages out so it's yours, or Venezuela gets it in the morning.

Mr. Purvis: Venezuela doesn't have a chance.

HM, Jr: Incidentally, we made a little shift. Colonel Burns is taking the place of the Quartermaster General on this Committee and Colonel Burns is assigned to Stettinius and Knudsen, so both aide to Knudsen and Stettinius and also on this Board.

(At this point Colonel McMoreland and Major Franks came in.)

HM, Jr: As I understand it, you gentlemen are going into a huddle and tell them what they can get on swap, etc., and everything they say yes to the orders will go out tonight.

Colonel McMoreland: I have somebody standing by.

HM, Jr: If they say yes, the orders go out tonight.

Colonel McMoreland: Yes, sir.

HM, Jr: If there is any trouble, Philip Young is going to get me out of bed.

Mr. Foley: One thing I would like to say, any publicity -- we don't have power under the law to sell to a belligerent. What we are doing is making these materials available to corporations in the United States and they will credit the United States with the fair sales value of those materials and you in turn will buy them as second-hand material from individuals and corporations in the United States, so that we have to be particularly careful not to let the public know, not to tell the press that we are selling directly.

Mr. Purvis: Wouldn't it be better if we were to refuse any word of any kind except such as you approve before we give out.

HM, Jr: I talked to Mr. Woodring and I made the

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suggestion that he have the Adjutant General draw up a statement which he, Mr. Woodring, will give out. He thought it was a good idea so he will give out a statement as to method, so a statement will come from Woodring.

oOo-oOo

Notes on Conference in  
Philip Young's Office, Treasury  
Department, June 4, 1940, 4:30 P.M.

Re: Ordnance Materiel to be Released for  
Sale or Exchange by the War Department.

Those present, Mr. Purvis, Mr. Bloch L'Aine, General Salmon, Colonel Gosling, Mr. Ballantyne, Colonel MacMorland, Major Franks, Mr. Cox, and Mr. Young.

On behalf of the War Department, Colonel MacMorland presented the attached list of ordnance materiel to be released for sale or exchange. The following corrections were made in the quantities as listed:

395	75 mm field guns (British)
308	3" Stokes trench mortars
8,693,000	Lbs. smokeless powder (bulk) for 155 mm gun

The following items were added to this list:

97,680	Rounds Shell H.E. for 3" Stokes mortars at a unit sales price of \$1.28
600	Caissons for the 75 mm field guns at a unit sales price of \$125.00
600	Caissons and limbers for 75 mm field guns at a unit sales price of \$75.00
10,000	1918 Tripods for the Browning machine gun M1917 at a unit sales price of \$26.00.

Each item on this list was discussed by the representatives of the Anglo-French Purchasing Board, and it was agreed by them that they would take all the items listed.

During the discussion it was pointed out that the unit sales prices listed represented the base price or exchange value to be received by the War Department and not necessarily the net price at which the items listed would be turned over to the Anglo-French Purchasing Board. In addition, it was agreed that the Anglo-French

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Purchasing Board would pay all packing, handling, and shipping charges from present places of storage to Raritan Arsenal and at Raritan Arsenal.

With respect to the 500,000 calibre .30 rifles M1917 (Enfield), the Anglo-French Purchasing Board agreed to purchase the 500,000 used rifles. It was understood that all prices included the proper proportion of spare parts.

The Anglo-French representatives made a strong plea for the release of any further quantities whatsoever of small arms ammunition which could be made available. They also asked that the question of releasing a further quantity of rifles might be considered.

ooCoo

*P.Y.*

PY:bj

June 4, 1940

My dear Mr. President:

Mr. Francis Biddle, Mr. Sumner Welles, General Marshall, Mr. Ed Foley, Mr. Philip Young and I went into a session at four o'clock Monday afternoon in regard to the sale or exchange of surplus war materials to corporations in this country for resale to the Allied Purchasing Mission. After an hour and a quarter the meeting adjourned to Mr. Foley's office where it continued until after midnight.

I am pleased to report that we were finally able to get a ruling from the Attorney General covering this subject and I am inclosing a copy herewith.

This morning at 8:45 the Solicitor General, Mr. Foley and Mr. Young called on Secretary Woodring and General Marshall and I am pleased to report that the matter is finally settled so that the War Department can go ahead and dispose of its surplus and un-serviceable war materials.

I telephoned Mr. Arthur Purvis to fly down immediately to Washington and he is to arrive here momentarily to go into a conference with the War Department so that telegrams can go out tonight to the various Army depots, starting the materiel on its way to the Atlantic seaboard.

Yours sincerely,

The President,  
The White House.

June 4, 1940

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Yours sincerely,

The President,  
The White House.

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## OFFICE of the ATTORNEY GENERAL

Washington, D.C.

( S e a l )

June 3, 1940.

The Honorable,

The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the materiel set out in two lists submitted by you:

The materiel listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

"That \* \* \* the Secretary of War be, and he is hereby, authorized to sell any surplus supplies including motor trucks and automobiles now owned by and in the possession of the Government for the use of the War Department to \* \* \* any corporation or individual upon such terms as may be deemed best."

The provision that such surplus supplies may be sold upon such terms as may be deemed best" undoubtedly gives the Secretary of War

power to sell without advertisement. American Sales Corporation v. United States, 32 F. (2d) 141 (C.C.A. 9th 1929); cert. denied 280 U.S. 574.

The act of July 9, 1918 (40 Stat. 850), as amended by the act of February 25, 1919 (40 Stat. 1173), limits the sales of guns and ammunition to other departments of the Government, to certain foreign states or governments, and to certain specified associations; but the act of July 11, 1919, SMITH, supersedes these provisions as to supplies on hand on July 11, 1919, including guns and ammunition, if they are at any time declared to be surplus. Once such supplies are determined to be surplus, they may be sold under the act of July 11, 1919. Georgia Wholesale Co. v. United States, 84 Ct. Cl. 150.

As to exchange of ammunition, the act of June 1, 1926 (c. 439, 44 Stat. 680), provides:

"That the Secretary of War be, and he is hereby, authorized to exchange deteriorated and unserviceable ammunition and components thereof for ammunition or components thereof in condition for immediate use."

Under this statute the Secretary of War may exchange any deteriorated and unserviceable ammunition for other useful ammunition or components thereof without advertisement. All that is necessary to protect the Government's interest is the ascertainment of the fair value for the exchange. This ascertainment of fair value may be arrived at through an appraisal and the obtaining of an exchange value of not less than the appraised value. A determination thus made would not be subject to review.

Respectfully,

(Signed) Francis Biddle

Acting Attorney General.

COPY

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OFFICE of the ATTORNEY GENERAL  
Washington, D.C.

( 0 0 1 )

June 8, 1948.

The Honorable,  
The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the material set out in two lists submitted by you.

The material listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

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As to exchange of ammunition, the act of June 1, 1926 (45 Stat. 444, 445, 690), provides:

That the Secretary of War be, and he is hereby, authorized to exchange deteriorated and unserviceable ammunition and components thereof for ammunition or components thereof in condition for immediate use.\*

Under this statute the Secretary of War may exchange any deteriorated and unserviceable ammunition for other useful ammunition or components thereof without advertisement. All that is necessary to protect the Government's interest is the ascertainment of the fair value for the exchange. This ascertainment of fair value may be arrived at through an appraisal and the obtaining of an exchange value of not less than the appraised value. A determination thus made would not be subject to review.

Respectfully,

(Signed) Francis Biddle

Acting Attorney General.

## OFFICE of the ATTORNEY GENERAL

Washington, D.C.

( S e a l )

June 9, 1948.

The Honorable,

The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the material set out in two lists submitted by you:

The material listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

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Respectfully,

(Signed) Francis Biddle

Acting Attorney General.

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## OFFICE of the ATTORNEY GENERAL

Washington, D.C.

( S e a l )

June 3, 1946.

The Honorable,

The Secretary of War.

My dear Mr. Secretary:

You have requested my opinion whether and under what conditions the War Department may without advertisement sell or dispose of by exchange to private corporations or individuals the materiel set out in two lists submitted by you:

The materiel listed consists of supplies for the use of the War Department. All of such supplies which were owned by the Government on July 11, 1919, and which have been or may be declared to be surplus, may be sold by the Secretary of War under the provisions of the act of July 11, 1919 (41 Stat. 104, 105), which reads in part as follows:

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Respectfully,

(Signed) Francis Blake

Acting Attorney General.

THE WHITE HOUSE  
WASHINGTON

SECRET

June 4, 1940.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

Can you hurry this up?

F. D. R.

*Received 9:25 P.M.  
6/5/40*

VIA  
This message must be  
closely paraphrased be-  
fore being communicated to  
anyone. (D).

Paris

Dated June 3, 1940

Rec'd 5:02 p.m.

Secretary of State

Washington.

RUSH

1014, June 3, 7 p.m.

PERSONAL AND SECRET FOR THE PRESIDENT AND SECRETARY  
OF THE TREASURY.

In my No. 918, May 28, 1 p.m., I asked urgently for  
Thompson sub-machine guns. The need for these guns is  
growing more urgent hourly. Can you take 5000 of them  
from the stocks of our Navy or at least 1000 and send  
them in the most rapid manner to Paris. They should  
reach here in ten days at the outside.

This is really urgent.

BULLITT

LMS:NPL

CONFIDENTIAL

June 5, 1940

To: The Secretary

From: Mr. Young

Attached herewith is a list of the ordnance materiel released for sale or exchange by the War Department. The Anglo-French Purchasing Board has agreed to take every item listed, including the additional items added by the Chief of Ordnance.

Colonel MacMorland issued telegraphic instructions to the various Army depots last night to pack and ship the materiel listed to Raritan Arsenal (New Jersey) immediately.

Mr. Purvis made an urgent plea for tremendous quantities of additional small arms ammunition and for additional rifles if they could be released.

*P.Y.*

ORDNANCE MATERIEL TO BE RELEASED FOR SALE OR EXCHANGE

Quantity	Item	Unit Sales Price	Condition (Estimated)	
			Serv.	Unserv.
1,157	Cal..30, Lewis mach. gun, ground, M1917	\$ 33.92	18%	82%
7,071	Cal..30, mach. gun, Vickers, ground type	131.23	43%	57%
2,602	Cal..30, Merlin tank machine gun	74.35	67%	33%
15,538	Cal..30, Merlin aircr. machine gun	23.16	94%	6%
5,124	Cal..30, Vickers aircr. machine gun	32.92	70%	30%
38,040	Cal..30, Lewis aircraft machine gun	33.92	34%	66%
10,000	Cal..30, Browning machine gun M1917	215.49	Unmodified	
35,000	Cal..30, Browning automatic rifle M1918	60.76	Unmodified	
500,000	Cal..30, Rifle M1917 (Enfield), used	7.50	Serviceable	
395	75mm Field Guns (British)	1,527.60	Serviceable	
308	3" Stokes Trench Mortars	12.50	Serviceable	
100,000,000	Rounds Cal..30 Ball Ammunition - per M	30.00	Deteriorated	
30,000	Cal..45 Revolvers	7.25	Serviceable	
1,000,000	Rounds 75 mm H.E. Shell	10.45	Deteriorated	
10,000,000	Lbs. TNT (per pound)	.15	Deteriorated	
3,693,000	Lbs. Smokeless Powder (bulk) for 155 mm Gun (per pound)	.42	Deteriorated	
100,000	Lbs. Smokeless Powder (bulk) for 155 mm How. (per pound)	.42	Deteriorated	
97,600	Rounds Shell H.E. for 3" Stokes Mortar	1.28		

ADDITIONAL ITEMS ADDED BY CHIEF OF ORDNANCE 6-4-40Accessories for Browning Machine Gun M1917

100,000	Ammunition Belts	1.81
100,000	Ammunition Chests	3.60
10,000	Water Chests	12.90
10,000	Steam Condensing Device	1.96
3,333	Belt Filling Machines	48.69
10,000	1918 Tripods	26.00

Accessories for Browning Automatic Rifle M1918

1,000,000	30-Round Magazines	.95
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Accessories for 75 mm Field Guns (British)

600	Caissons	125.00
600	Caisson limbers	75.00

NOTE: All prices are "as is" and "where is", exclusive of packing, handling, and shipping charges. Any reconditioning must be effected without expense to the U. S. Government subsequent to sale and removal from War Department depots and by non-War Department agencies.

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**TREASURY DEPARTMENT**

INTER-OFFICE COMMUNICATION

DATE June 4, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

On May 30, Mr. Knoke telephoned me in regard to his conversation by telephone with Mr. Bolton, described in the attached memorandum. I brought Knoke to date on our exchange of correspondence with the British Embassy in Washington on the subject of contemplated British regulations on exchange control and rates. I explained to Mr. Knoke that I had not informed him earlier of the receipt by us of the representations by the British since it was definitely understood between Pinsent and myself that the matter of the official sterling quotation on our markets should not be taken up by us with the Federal Reserve authorities until after agreement had been reached on the first seven paragraphs of the original British memorandum. I let Knoke know that the Treasury had made no commitment with respect to paragraph nine, touching upon the official rate quotation, except to promise that the Treasury would take up this matter with the Federal Reserve.

On Saturday noon I received from Mr. Knoke a copy of cablegram no. 499 addressed to him on that date by Bolton of the Bank of England. It was understood that we would think over this message and discuss it further on Monday.

On Monday forenoon Mr. Knoke telephoned me in regard to the above-mentioned message from Bolton. My secretary read to Mr. Knoke's secretary the complete exchange of memoranda between the British Embassy and the Treasury. Copies of these memoranda, that is, the British memoranda dated May 24 and May 31, and a transcript of my oral statement made to Pinsent on May 28, were sent by mail to Mr. Knoke.

This morning at nine o'clock Knoke and I discussed the problem in some detail. I explained to Knoke the final paragraph of my memorandum of May 28, since he was not aware of the oral inquiry which had been made of us by the British. I agreed with Mr. Knoke that the British were perhaps looking too much to us to suggest the method whereby quotations of sterling in New York could be limited to the official rate. I agreed further with the ideas which Knoke had incorporated in a cablegram which he had sent yesterday evening to Bolton, requesting further information as to the objectives of the British policy, and clarification of certain points. Mr. Knoke is to send me a copy of this message, and also a memorandum of the conversation which he hopes to have by telephone with Bolton today.

I had brought to Mr. Knoke's attention a memorandum which we had sent him some days ago copying from a Bureau of Foreign and Domestic Commerce release of May 14, 1940, in regard to sterling quotations in the Argentine. Knoke had studied this and agreed with me that it was a quite different problem in the Argentine than in the United States, since we have neither a payment agreement with England nor exchange control. After all, the British must themselves

- 2 -

decide upon and take steps sufficient to eliminate trading in free sterling if they expect a single rate for sterling to be quoted in New York.

Mr. Knoke expects nothing further from the Treasury pending receipt of the explanations which he has requested.

*B. M. R.*

RESPONSE

May 30, 1940.

CONFIDENTIAL FILES

TELEPHONE CONVERSATION WITH

L. W. Knake

BANK OF ENGLAND.

Mr. Bolton called me today at my home and made reference to certain exchange of cablegrams between the Secretary of the Treasury in Washington and the Chancellor of the Exchequer in London and also to certain new British regulations and instructions to be introduced early next week.

I replied that I had no information of either cablegrams or regulations or instructions. Mr. Bolton stated that he was sending me today a lengthy cable the essence of which was that they were very anxious to have the official rates 4.02 1/2 to 4.03 1/2 quoted in New York. He also spoke of the facilities now set up in New York under which our banks and the New York agencies of certain British banks could buy documentary sterling bills at the 4.02 1/2 rate. If that was not sufficient they might consider giving Federal Reserve Bank of New York daily orders to buy and sell sterling at the official rate. In reply I pointed out that it was pretty difficult for me to discuss this matter without any prior information; that I would carefully study his cable when received and would after that communicate with him.

LWK:KW

## TREASURY DEPARTMENT

249

## INTER-OFFICE COMMUNICATION

DATE June 4, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned me from New York this morning in regard to a report which he had seen in the New York Times of our action with respect to security sales. I explained that this simply amended previous orders, and that the general subject of controlling the imports and sale of dollar securities which might have been seized in invaded countries was still under consideration. I told him that the question might be decided today. He asked that I call him in New York if a decision might be reached today, so that he may come to Washington tomorrow and discuss the new regulations with our legal department. I can reach Mr. Leroy-Beaulieu at his regular office until four or four-thirty Washington time and after that in the French Purchasing Commission, Whitehall, 4-7900.

I told Mr. Leroy-Beaulieu that I received from the French Embassy yesterday evening a written summary of the suggestions which he had made to me over the telephone in regard to our control of imports and sale of securities from abroad and that this memorandum had been received in time for study by our group which was preparing the new regulations.

June 5, 1940.

Having been unable to reach Leroy-Beaulieu by telephone last night, I called him at 5:30 this morning to let him know that the Treasury had not yet issued regulations with respect to the import and sale of securities which may have been seized in invaded territory. I suggested, therefore, that he defer his contemplated visit to the Treasury until such orders may be issued. Some of us would then be in a position to discuss the rules with him.



**CONFIDENTIAL**  
**TREASURY DEPARTMENT**

250

INTER-OFFICE COMMUNICATION

DATE June 4, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

The foreign exchange market was dull today. A downward movement in the pound during the morning was offset by an afternoon improvement. Sterling opened at 3.19-3/4, which was also yesterday's closing rate. It eased to a low of 3.18-3/8 at noontime. A firmer tendency subsequently appeared and sterling moved up to a high of 3.20 late in the afternoon. The final quotation was 3.19-3/4.

Sales of spot sterling by the six reporting banks totaled £241,000, from the following sources:

By commercial concerns.....	£ 39,000
By foreign banks (Europe and South America).....	£202,000
Total.....	£241,000

Purchases of spot sterling amounted to £275,000, as indicated below:

By commercial concerns.....	£118,000
By foreign banks (Europe and Far East).....	£157,000
Total.....	£275,000

The following reporting banks sold cotton bills totaling £15,000 to the British Control on the basis of the official rate of 4.02-1/2:

£13,000 by the Guaranty Trust Company
1,000 by the National City Bank
<u>1,000</u> by the Irving Trust Company
£15,000 Total

Spot sterling in the amount of £31,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£17,000 by the Bank of Manhattan (for rubber)
10,000 by the Guaranty Trust Company (for rubber)
4,000 by the National City Bank (for whiskey and tin)
<u>£31,000</u> Total

The French franc moved with sterling and closed at .0181-1/8.

The other important currencies were steady and closed as follows:

Swiss francs	.2242
Canadian dollars	21-5/8% discount
Lira	.0505

The Cuban peso, which reached a current low of 11-1/2% discount yesterday, improved to 10-7/8% today. The Mexican peso was unchanged at .1672.

The yuan was quoted in Shanghai at 5-1/16¢, off 1/16¢.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$15,000,000	from the Bank of France
12,426,000	from the Bank of England
700,000	from the Central Bank of the Colombian Republic
<u>\$28,126,000</u>	Total

The Federal Reserve Bank of New York reported the following shipments of gold:

\$12,532,000	from England, shipped by the Bank of England to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of England.
3,081,000	from Canada, shipped by the Bank of Canada, Ottawa, for its account to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
14,000	from England, shipped by the Guaranty Trust Company, London, to its head office at New York, for sale to the U. S. Assay Office.
<u>\$15,627,000</u>	Total

In a report from the Federal Reserve Bank of New York showing deposits for the account of Asia as reported by the New York agencies of Japanese banks on May 29, such deposits totaled \$39,508,000, a decrease of \$11,814,000 since the last report as of May 22. Included in this total were \$28,177,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China (showing little change from May 22) and deposits of \$1,302,000 made by the head office and Japanese branches (a reduction of \$12,172,000 since May 22). The overdraft of the head office and Japanese branches on

CONFIDENTIAL

- 3 -

the books of Yokohama's New York agency was \$82,528,000, a decrease of \$13,833,000 since May 22.

The Bombay gold price declined the equivalent of  $1/4\phi$  to \$36.26.

Spot silver in Bombay worked out to the equivalent of  $44.81\phi$ , off  $1/8\phi$ .

A reaction took place in the London silver prices today. The spot price was fixed at 23d, off  $1/2d$ . The forward quotation was 22d, off  $3/8d$ . The U. S. equivalents, calculated at the open market rate for sterling, were  $33.09\phi$  and  $31.41\phi$  respectively. On the basis of the official sterling-dollar rate, spot silver was equivalent to  $41.81\phi$ .

Handy and Harman reduced its settlement price for foreign silver by  $1/2\phi$  to  $34-3/4\phi$ . The Treasury's purchase price for foreign silver was unchanged at  $35\phi$ . This is the first time that Handy and Harman's quotation has been lower than that of the Treasury's since May 17.

We made four purchases of silver totaling 750,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.



CONFIDENTIAL

## TREASURY DEPARTMENT

253

## INTER-OFFICE COMMUNICATION

DATE June 4, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Mr. Gaston telephoned me yesterday afternoon to inquire whether I had any information in regard to the Japanese Government recruiting American economists to constitute a commission to visit Japan and that part of China occupied by the Japanese. Mr. Gaston told me that Mr. William Myer, formerly in Washington but now at Cornell, had mentioned this subject since Professor Frank Pearson of his staff had been invited to join this group. General John T. O'Ryan is also said to be interested in the proposition. In answer to Mr. Gaston's inquiry, I told him that Messrs. Hornbeck, Feis and Hamilton would be the officers in the State Department most likely to be familiar with this subject. I told him I had heard nothing of such a move. I also spoke with Mr. Winfield Riefler, who was at the moment in my office, but the latter had heard nothing of this at Princeton.



## TREASURY DEPARTMENT

254

## INTER-OFFICE COMMUNICATION

DATE June 4, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Late yesterday evening Mr. Collado telephoned me from the Department of State. He told me that the Bolivian Minister had protested vigorously to Under-Secretary Welles against the detention by the Federal Reserve Bank of New York of the gold which the Central Bank of Bolivia had requested to be dispatched by airplane to La Paz. Collado had been in touch with the Federal Reserve Board, and sought my advice as to whether he should speak further with the Board or with the Bank in New York. He stated that when he had talked earlier with Mr. Gardner of the Board, Mr. Welles had not yet received the Bolivian Minister and consequently had no reason to take such a strong position as he is now disposed to assume. The Bolivian Government took exception to the act of the Federal Reserve Bank, alleging that it represented pressure on Bolivia by the State Department and the Standard Oil Company.

I told Collado that I personally was sympathetic with the Central Bank of Bolivia, since I still had the idea that Central Bank holdings should have very special consideration, and should not be interfered with on informal protests of private bankers. I insisted that this was not a matter over which the Treasury had jurisdiction, or could give instructions. I suggested, however, that Collado talk again with the Federal Reserve Board and indicate the keen interest of the State Department in seeing the matter settled to the satisfaction of the Bolivian Government as quickly as possible.



## PARAPHRASE OF TELEGRAM SENT

TO: American Legation, La Paz

DATE: June 4, 1940, 6 p.m.

NO.: 24

Reference is made to telegram of May 30, No. 43 from the Legation.

The matter has been discussed with the Bolivian Minister and the Federal Reserve Bank of New York. The Minister has asked the Department to help in getting the gold shipped to the Banco Central de Bolivia.

Counsel for the Federal Reserve Bank of New York and the Federal Reserve Board have advised that the Federal Reserve Bank of New York might be liable to action for damages if the orders of the owners of the gold are not carried out, regardless of the fact that consignment of the gold to the Federal Reserve Bank was made for the account of the Banco Central. The Federal Reserve Bank is taking the position that, having been placed on notice of the claim of the Banco Mercantil, it is necessary to clarify ownership and control over the gold, or it will be necessary to have one or other of the two parties withdraw its order.

So as to clear up the matter, you are requested to send the Department by cable the details of the arrangements  
whereunder

- 2 -

whereunder the Banco Mercantil's gold was turned over to the Banco Central in 1934 to serve as collateral for the London loan. You are also requested to inform the Department of the present status of such arrangements, particularly in view of the fact that the London loan was repaid, and the Chase Bank released the collateral. What the Department would like to know is whether these arrangements result in title passing to the Banco Central or whether title and control over the gold reverts to the Banco Mercantil at once.

Furthermore, the Department requests information whether Bolivia's gold and foreign exchange regulations permitted the Government to allow gold export only for a certain purpose, and once this purpose was served, to recall that gold to Bolivia.

A request for similar information is being addressed to the Bolivian Government by the Minister in Washington.

HULL  
(HF)

EA:GL:MSG  
RA:EGC

EA:LWW

## GROUP MEETING

June 4, 1940  
11:15 a.m.

Present: Mr. Haas  
Mr. Foley  
Mr. Gaston  
Mr. Thompson  
Mr. Graves  
Mr. Schwarz  
Mr. Harris  
Mr. White  
Mr. Cochran  
Mr. Sullivan  
Mrs. Klotz  
Mr. Bell

H.M.Jr: Well, Norman, how do you feel?

Thompson: I feel pretty good, thanks.

H.M.Jr: Why don't we open a branch office down there?  
I just thought I might get acquainted with you  
all again.

This evening after office hours - I have talked  
myself with George Mead - George Mead is to go  
downstairs, see, and I have told him this so  
it is understood. He is occupying about five  
offices down there already, and so he will go  
down. It will only be temporary anyway, and  
I want that room tomorrow morning ready for  
Mr. Nelson, because I want him to have an  
office here as well as over in the Procurement.  
Besides Acting Director, we will also make him  
Assistant, too, please. Did he meet --

Graves: Collins? Oh yes, he spent a couple of hours  
with Collins.

H.M.Jr: Well, you take him on at the beginning, won't  
you, and help him out?

Graves: Yes, sir.

H.M.Jr: That (handing document to Mr. Bell) is for  
either you or Sullivan.

Norman?

- 2 -

Thompson: I have only that thing.

H.M.Jr: He gets here tomorrow. I will just skip Bell for a minute. I will come back to you, Dan.

Harry, good morning.

White: Good morning.

H.M.Jr: Did you get my telegram?

White: I got your message. I was here at the time.

H.M.Jr: Did you make use of it?

White: I certainly did.

(Unrecorded telephone conversation was held with Mr. Young.)

- 3 -

H.M.Jr: He says you (Foley) deserved all the credit. I am proud of my department. I am serious. The way these other people do these things in a half baked way and just let the ends lie all over the lot - Bob Jackson told me Sunday night that the opinion had gone over. They don't know what goes on in their own departments. You will get a chance to tell me more about it afterward.

Bell: This letter covers the meeting we had this morning pretty well.

H.M.Jr: Go ahead, Dan.

Bell: I have nothing.

H.M.Jr: How is financing?

Bell: Financing is all right.

H.M.Jr: Do you want to stay behind a minute?

Bell: Yes.

H.M.Jr: Harry?

White: You might be interested in knowing that the RFC bill before the House to purchase strategic materials had added to it a paragraph to meet Wallace's desires. It is a compromise.

H.M.Jr: Well, that is Washington.

White: Yes.

H.M.Jr: What else?

White: That is all.

H.M.Jr: Anything else?

White: No, nothing important.

Harris: We, at the request of the Navy, are grabbing a lot of lathes and machinery and what not. I don't know where we are going to end up.

H.M.Jr: That is Mr. "Sknuksen".

- 4 -

- Harris: Well, we are stopping quite a few shipments, and the Japanese and the Russian Ambassadors protested to the State Department on it, but we are still doing it and we have no authority, but we are still doing it.
- H.M.Jr: Well, of course this Captain of the Navy - Army, he is doing it, I suppose, on the direction of the President, and it was done by you fellows without my knowing anything about it.
- Harris: I think it is very intelligent, too, because there are some great big lathes and all kinds of stuff which would take many months to build. We might just as well grab them.
- H.M.Jr: Well, I asked Mr. Edison to do it three months ago, and I had a formal letter from him telling me it was impossible.
- White: Is that that big lathe, that very large one?
- H.M.Jr: There is fifteen million dollars worth of Japanese and Russian stuff that I had a list of that I wanted him to stop. The President wanted it. I got a formal letter back from him saying it couldn't be done.
- Gaston: The fellow that is pushing this is a Lieutenant Commander who is an ex-Customs employee, so that is the explanation.
- Harris: It runs in the blood, apparently.
- H.M.Jr: I am delighted that you people have so much intestinal fortitude.
- Harris: I just had a visitor who asked me to give you his best regards, Martin Convoy.
- H.M.Jr: Oh, good goah. What else?
- Harris: I would like a minute today or tomorrow --
- H.M.Jr: Tell Mac. This afternoon.
- Harris: All right, any time.
- H.M.Jr: Just tell him that. George?

- 5 -

Haas: Steel is really good.

Schwarz: Nothing.

Cochran: Nothing, sir.

(Mr. Sullivan handed letter to the Secretary for initialing).

H.M.Jr: My God, how I hate to do this.

Sullivan: Redoubled.

H.M.Jr: What shall I do, initial it or sign it?

Sullivan: Initial it.

H.M.Jr: I am going to give you a chance in the not too far distant future to tell me about last night. I promised Bell a chance to talk to me as soon as we get through. They said this Governor of Louisiana is coming in at two.

Sullivan: He is making a very substantial raise on our fellows down there. He is taking over the Collector to run the tax end of the system in Louisiana, and we have an understanding with him that our man shall not leave until after Congress adjourns, because we will want to put somebody in action without too much Congressional interference. I discussed the question, and he is apparently agreeable with it.

H.M.Jr: Basil, three thirty.

Foley: He is not only agreeable, but he wants it.

H.M.Jr: Foley, you and Young at three o'clock.

Sullivan: Now, the Commissioner says that he is taking a great many men out of the office and suggested that we convey to Governor Jones the idea that since he is taking the leaders, he had better go easy on the rest and leave some force there for us.

H.M.Jr: Everything else all right?

Sullivan: Yes, sir.

- 6 -

Foley: Mr. Secretary, I have gotten in touch with three fellows that used to be with us in Bernie's shop for during the exchange control work and I have gotten two of them back. Buzz Aarons can come back for the summer months.

H.M.Jr: Where is he now?

Foley: He is in Milwaukee and I would have to put him on the stabilization roll if I got him back. Is it all right to put him on?

H.M.Jr: Norman looks darned husky to me. I will bet he will fight.

Bell: You could put him on this extra appropriation of four hundred thousand.

Foley: When are you going to get it?

Bell: It is in this last bill. I don't know when the House is going to pass it.

Foley: Then I would have to classify the job, Dan. If I do it on the stabilization fund, I don't. I can just take him back. Why don't we put him on the stabilization fund roll and when your money is available, we can reimburse it.

Bell: It is all right with me.

Foley: Okay.

H.M.Jr: Whatever they say.

Bell: It is all right with me, because they do need some more help.

H.M.Jr: All right.

Foley: I have gotten these three fellows now.

H.M.Jr: Didn't Aarons - wasn't he over at Farm Credit?

Foley: That is right. He is a very good fellow. He went back into private practice. These fellows all know our ways and have had experience here, and are willing to come back now to sacrifice and help out in this emergency.

- 7 -

- H.M.Jr: I thought he was one of the boys in Farm Credit.
- Foley: That is right, he came to you in '33 and you brought him over here. He has always been with us.
- H.M.Jr: Mr. Jerome Frank did a little talking (handing clipping to Mr. Schwarz).
- Schwarz: They called him after he had been here.
- Foley: Woodring got the needle a little bit in Pearson and Allen's column this morning. I thought he was going to take exception. He said he didn't know what he was doing when he signed that order in March. He said he thought he was just serving notice that agents of these governments couldn't come in unless they were accredited by the State Department.
- H.M.Jr: Did you get that from the column?
- Foley: I saw the column before I went over there.
- H.M.Jr: Well, I am going to get that report from you and Philip. I am very anxious to get it.
- Gaston: At the request of the State Department, we issued orders to the "Camel" to speed up her passage to Greenland. The Danish Governor and the Consul are disturbed about the actions of the Canadians and the British. They haven't been entirely frank, according to Berle. You probably noticed that we took up our appropriation for additional men in the Coast Guard in the regular way. We cleared it with the budget and we also cleared with the Appropriations Committee for another deficiency.
- H.M.Jr: Did you try to get any more planes for the Coast Guard?
- Gaston: No, I didn't. We made a talk on some extensions to the Academy and also for reconstruction of Fort Trumbull, but we didn't get anywhere on the deficiency basis, so I think we will salt them up for next year's appropriation.
- H.M.Jr: Everybody else happy?

- 8 -

- Harris: Mr. Secretary, you instructed me to talk to the State Department about Treasury employees in France.
- H.M.Jr: Yes.
- Harris: We worked that out in our own Department. We didn't feel it necessary to talk with them.
- H.M.Jr: What did you do?
- Harris: Well, we cabled Wait, asked him for his recommendations, and then followed them.
- H.M.Jr: What were they?
- Harris: Return four people all told. We have been returning a few from time to time. This cleans up most of them.
- H.M.Jr: Bell and Norman Thompson stay.

June 4, 1940  
8:32 a.m.

Operator: Go ahead, please.

H.M.Jr: Hello.

Mr. Edward Stettinius: Hello, Mr. Secretary.

H.M.Jr: Yes, good morning. How are you?

S: I wanted to report some very encouraging news in the steel industry.

H.M.Jr: Good for you.

S: Orders are rolling in to beat the band and it looks to me like there will be full house operations in the steel industry for some months to come.

H.M.Jr: Wonderful.

S: That same plan that I told you about ten days ago was continued and .....

H.M.Jr: It's still on the domestic side.

S: Well, of course, yes. But some of the releases of the export are becoming -- but it's still that over-all general, miscellaneous vitality that I told you about the last time that we saw each other .....

H.M.Jr: Yeah.

S: ..... that's coming from all fields, even agricultural buying in wire products and common roofing products and that kind of thing is showing quite a substantial vitality, and the whole thing is very, very cheering.

H.M.Jr: Good for you.

S: Now, this is my last official, formal report.

H.M.Jr: (Laughs)

- 2 -

S: I'm cleaning up in the steel corporation today.

H.M.Jr: Where are you talking from?

S: I'm talking from the Federal Reserve.

H.M.Jr: Oh, yeah.

S: And I'm giving -- I've made arrangements there to be relieved of all duties and responsibility and it so happens that my duties have to be filled, so I have to have a successor elected to me in the steel corporation.

H.M.Jr: I see.

S: It's a big sacrifice to make, but I want to make it.

H.M.Jr: Well, I've got my money on you and I went out on the end of the limb in connection with you with the President, so .....

S: Well, that's awfully nice.

H.M.Jr: ..... I don't, I mean, I hope you don't let me down.

S: Well, I won't.

H.M.Jr: I think I was the first person to recommend you to the President.

S: Well, that's very, very gratifying.

H.M.Jr: But my experience with you was so satisfactory .....

S: Well, I'm going to give, Mr. Secretary, I'm going to give this everything I've got.

H.M.Jr: ..... and so, you know the thing that you talked to me about only the week before, that you could only come in by the back door -- remember?

S: Oh, yes. The people.

- 3 -

H.M.Jr: Yes, the same people, but always through the back door for they seem to be ashamed to see you through the front door.

S: Yes.

H.M.Jr: Have you forgotten that already.

S: (Laughs) What was his reaction to that?

H.M.Jr: I didn't say that to him.

S: Oh, yes. I understand.

H.M.Jr: No, I simply told him my experience with you and how satisfactory it had been.

S: Well, that's awfully nice.

H.M.Jr: And .....

S: Well, now whenever I can help you in any way, you let me know.

H.M.Jr: That goes both ways.

S: Thank you, sir, good-bye.

June 4, 1940  
11:18 am.

H.M.Jr: Hello.

Arthur  
Purvis: Hello. Good morning.

H.M.Jr: Good morning, Arthur.

P: How are you?

H.M.Jr: Our boys worked through until 12:20 last night and they finally wore out the Attorney-General so that he gave an opinion.

P: (Laughs)

H.M.Jr: So I think -- they've been over at the War Department since eight this morning and Philip Young called up that the thing is going so well I think you'd better hop on a plane and come on down.

P: All right, I'll do that.

H.M.Jr: Because -- and be ready to take the stuff over.

P: Yes.

H.M.Jr: They'll be ready by the time that you get down here, so I understand.

P: Yes. All right. Now, in that case, we'll do that, and I think I'd better bring down, the head of the French armament -- technical fellow, so that he can help choose, I mean, help on the technical side and so on.

H.M.Jr: Listen -- ah -- hello.

P: Yes.

H.M.Jr: Let me make a suggestion. Take everything that they offer you.

P: Yes!

- 2 -

H.M.Jr: Take everything.

P: I think we will without question.

H.M.Jr: Yes, because it's been the fight of the year.....

P: I'm sure it has.

H.M.Jr: ..... and everybody here is -- well, we just -- they started at four yesterday and we got through at -- General Marshall gave it three hours himself.

P: Yes, quite.

H.M.Jr: But we finally got things straightened out. I think you'd better come on down and when you get in, just give me a ring and I'll let you know.

P: All right, I'll let you know just as soon as I get there.

H.M.Jr: I tell you, you might let -- you might let Mrs. Klotz know, send her a telegram what time you think you're going to come.

P: Yes. I'll have word sent to her as soon as I can get onto the plane and I'll just get a sandwich before I leave.

H.M.Jr: Yeah, because we've just turned Washington inside out to get this and I think it would be -- .....

P: Oh, I agree. Quick action in everything.

H.M.Jr: ..... and I think it would be good ball now if you'd pick it up and carry it.

P: Correct. (Laughs) I'll try and keep the ball in the other court.

H.M.Jr: Well, they want to begin packing this stuff and shipping it at once.

P: Good! I told Monnet on the telephone last night, I said, for heaven's sake, send your shipping

- 3 -

instructions, it's no good -- (Laughs) nothing short of the case markings will be any use.

H.M.Jr: Yeah. Now, don't let me down, because I told them you've got a boat ready and everything to move it on.

P: Yes, well, all right. Well, we'll take care of it. (Laughs)

H.M.Jr: What?

P: Right you are, sir.

H.M.Jr: Yeah, and don't let anybody -- anybody be fussy, please.

P: No, no. I know.

H.M.Jr: See?

P: I know.

H.M.Jr: I mean, as I get it, unless there's a change, Army is ready to begin shipping today, and what they want is a destination.

P: Good. All right. Well, I'll take time just to try and get a boat lined up. Of course, we'll have to know the tonnages. That's all right, we'll get right at it.

H.M.Jr: Right.

P: Right. Thank you very much.

H.M.Jr: Well, you don't know what we've gone through here.

P: I can -- (Laughs) I can imagine it's not been easy.

H.M.Jr: O. K.

P: All right. Thank you very much. Good-bye.

June 4, 1940  
11:57 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Robert  
Doughton: Hello, Henry.

H.M.Jr: Yes, sir.

D: Bob Doughton.

H.M.Jr: Yeah.

D: I was just thinking over this matter about the strategy of this fellows Rivers.

H.M.Jr: Oh, yeah.

D: I was wondering if it was better for me to just tell him to go on down and let Mr. Thompson explain that matter to him or for me to take it up with him.

H.M.Jr: Well, Thompson will be glad to explain it to him.

D: Well, here's what I thought. If Thompson will go down and just let ~~Thompson~~ talk and you tell Mr. Thompson and let Thompson tell him that I had recommended him strongly.

H.M.Jr: We'll do that.

D: But this investigation had disclosed so and so .....

H.M.Jr: Yeah.

D: ..... and unless that matter could be straightened up some way that there just couldn't be any appointment made, and maybe it would be better for me to tell him.

H.M.Jr: Well, we'll be glad to do it.

- 2 -

D: Well, I'll just tell him then that .....

H.M.Jr: You tell him to come down after lunch to see Norman Thompson and we'll tell him.

D: Norman Thompson.

H.M.Jr: Yeah.

D: I'll tell him to come and I want you to put it up to him that I've done my full duty, all that anybody could do.

H.M.Jr: I know.

D: Well, thank you very much.

H.M.Jr: O. K.

June 4, 1940  
12:56 p.m.

H.M.Jr: Hello.

Jerome  
Frank: Hello, Henry.

H.M.Jr: Yeah.

F: I needn't have bothered you, because since I called you I spoke to Ed Foley, but I can tell you what it was. The newspaper boys over here, we gather, didn't get at first the implication of your orders, -- those orders of yesterday and this morning, and I had an idea that if either you or -- if you were going to have a press conference, or if the President were to point with pride and tell them what it meant, it might give the story a boost.

H.M.Jr: Oh.

F: You see, they read it and it looked kind of technical to them and they didn't quite understand what it was all about.

H.M.Jr: I see. O. K. -- but you -- thank you.

F: All right.

June 4, 1940  
2:04 p.m.

Operator: There you are.

Leon  
Henderson: Hello.

H.M.Jr: Yes, Leon.

H: Knudsen asked me this morning in response to something -- is there anything I can do for you -- ah -- what about a depreciation rate, and I told him that you had those in your department and he asked me about getting them for him.

H.M.Jr: Depreciation rate?

H: Yeah.

H.M.Jr: What do you mean?

H: Well, the allowances on buildings and equipment, you see.

H.M.Jr: Oh, good God, are they going to start that already?

H: I don't know. He didn't give any indication as to what it was .....

H.M.Jr: What the hell has that got to do with production?

H: Well, I don't know.

H.M.Jr: Neither do I.

H: Well, all I said to him was I'll undertake to get it for you. I've got an accountant here that I can send over. I suggested to him that he see your people, get the material and work up a memorandum which I could give to Knudsen and .....

H.M.Jr: Well, you'd better not send any accountant over. You'd better see Sullivan, himself. My God, we fought this out with the Army generals and admirals now long enough. I'm not going to start fighting it all over again.

- 2 -

- H: Well, it -- all I want is just the physical accounting that the -- you allow as a matter of .....
- H.M.Jr: ..... Well, don't send any accountant over. If you want that you better see John Sullivan and get the story straight.
- H: Well, it just happens that I promised to be in a meeting here and I promised to see Brandeis this afternoon.
- H.M.Jr: Well, I'm not -- we haven't got time to fuss around with any accountants, I mean, this fight has been going on here now for months.
- H: I know.
- H.M.Jr: And any time you want to see John Sullivan he'll be delighted to see you, Leon, but we haven't got time for any accountants. I've fought this battle too long now.
- H: I know, but it isn't a matter of my getting in the battle, I don't want to get in the battle and I don't want -- all I -- It's just a matter of getting what your information is .....
- H.M.Jr: Well, the information is certainly available to the accountants of General Motors, I mean, they don't have to come down here to get it.
- H: Well, he hasn't got those fellows here and he hasn't got any staff over there.
- H.M.Jr: Well, I still say, if you don't mind, on account of all the headache I've had with this, if you want to talk about depletion or depreciation, you'd better start with John Sullivan.
- H: All right.
- H.M.Jr: I'm sorry, but I've got to stick by my guns. I've had too many rear-guard actions on this.
- H: All right. I'm not in this thing -- I was +.....
- H.M.Jr: Well, take a tip and keep out of it.

- 3 -

H: I will.

H.M.Jr: But if Knudsen wants to know what the Treasury is doing, let him come over and see John Sullivan, and I'll tell John. He'll be glad to see either you or Knudsen.

H: All right.

H.M.Jr: I'm sorry I'm so definite, but I've had too many battles over this.

H: I know. All right, thank you.

H.M.Jr: Thank you.

June 4, 1940  
2:38 p.m.

H.M.Jr: Hello.

Operator: Sullivan. Go ahead.

H.M.Jr: John.

John  
Sullivan: Yes, Mr. Secretary.

H.M.Jr: Leon Henderson called me up -- you're going to get a copy of the conversation -- and he wanted to send an accountant over here at the request of Mr. Knudsen to look into our accounting methods on depreciation, and I turned him down flat. I told him either Mr. Knudsen or Mr. Leon Henderson wanted to see you, you'd be glad to see them, but we weren't going to have any accountant checking up on the Treasury.

S: Yeah.

H.M.Jr: And you'll get the full copy of my conversation. It's being typed and sent in to you.

S: I see. Well .....

H.M.Jr: In other words, that's the first job that Knudsen is taking on.

S: This is the fore-runner for a plea for amortization.

H.M.Jr: Sure.

S: That's exactly it.

H.M.Jr: Yeah. Well, I told them that at any time they could see you, but no clerks.

S: Yes.

H.M.Jr: O. K.

S: Very well, sir. Thank you.

June 4, 1940  
4:25 p.m.

Operator: Can you wait just a moment?  
H.M.Jr: Hello.  
Operator: All right. Go ahead.  
H.M.Jr: Hello.  
Secretary Iokes: Hello, Henry.  
H.M.Jr: Hello, Harold.  
I: Governor Olsen called me from Sacramento the other day about this Giannini case.  
H.M.Jr: Who?  
I: Governor Olsen.  
H.M.Jr: Oh, yes.  
I: He said that Giannini wasn't so much concerned about what would happen as he was concerned at the delay, that he would like to have the thing decided, if he could, quickly.  
H.M.Jr: Now which case are you talking about?  
I: Oh, hell, I don't know.  
H.M.Jr: Well, the Bank of America case has been settled.  
I: Well, then it couldn't be that.  
H.M.Jr: And it's the Transamerica case which is in S.E.C. hands.  
I: Oh. You haven't anything to do with it?  
H.M.Jr: No, thank God!  
I: All right.

- 2 -

H.M.Jr: So, it's -- we've settled our difficulties  
with regard to the Bank of America.

I: All right, Henry.

H.M.Jr: Hello.

I: Yeah.

H.M.Jr: So it's S.E.C.

I: Yeah, thanks. Good-bye.

HSM

SPECIAL GRAY

Tallinn

Dated June 4, 1940

Rec'd 11:25 a. m.

Secretary of State,  
Washington.

59, June 4, 4 p. m.

Estonian Minister in Berlin reports acute anxiety on the part of the German Government that the American Government is about to freeze German dollar holdings in the United States.

Am also reliably informed that the Soviet Government is suffering from a lack of foreign exchange. Dollar payments to Estonia have been suspended and the Soviet authorities have requested a substantial overdraft.

In Lithuania Red Army has had sharply to curtail expenses incurred in foreign exchange.

Reliable information in Riga alleges that the Soviet Minister is buying dollars on a large scale in the Black Bourse for transfer to Soviet account in the United States.

WILEY

CSB

GRAY

Milan

Dated June 4, 1940

Rec'd 2:37 p.m.

TO THE SECRETARY  
OF THE TREASURY  
DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.  
JUN 4 4 08  
SECRETARY OF STATE

Washington

54, June 4, 5 p.m.

Today's market index 216.90. Volume 63,725.

Prices depressed in listless trading probably due  
economic conditions.

SHOLES

LMS:CSB

TO THE SECRETARY  
 TECHNICAL ASSISTANT  
 TO THE SECRETARY  
 OF THE STATE  
 WASHINGTON, D. C.

VO 2 MR & MIL OAS  
 JR

PLAIN

London

Dated June 4, 1940

Rec'd 1:31 p.m.

Secretary of State,  
 Washington.

1506, June 4.

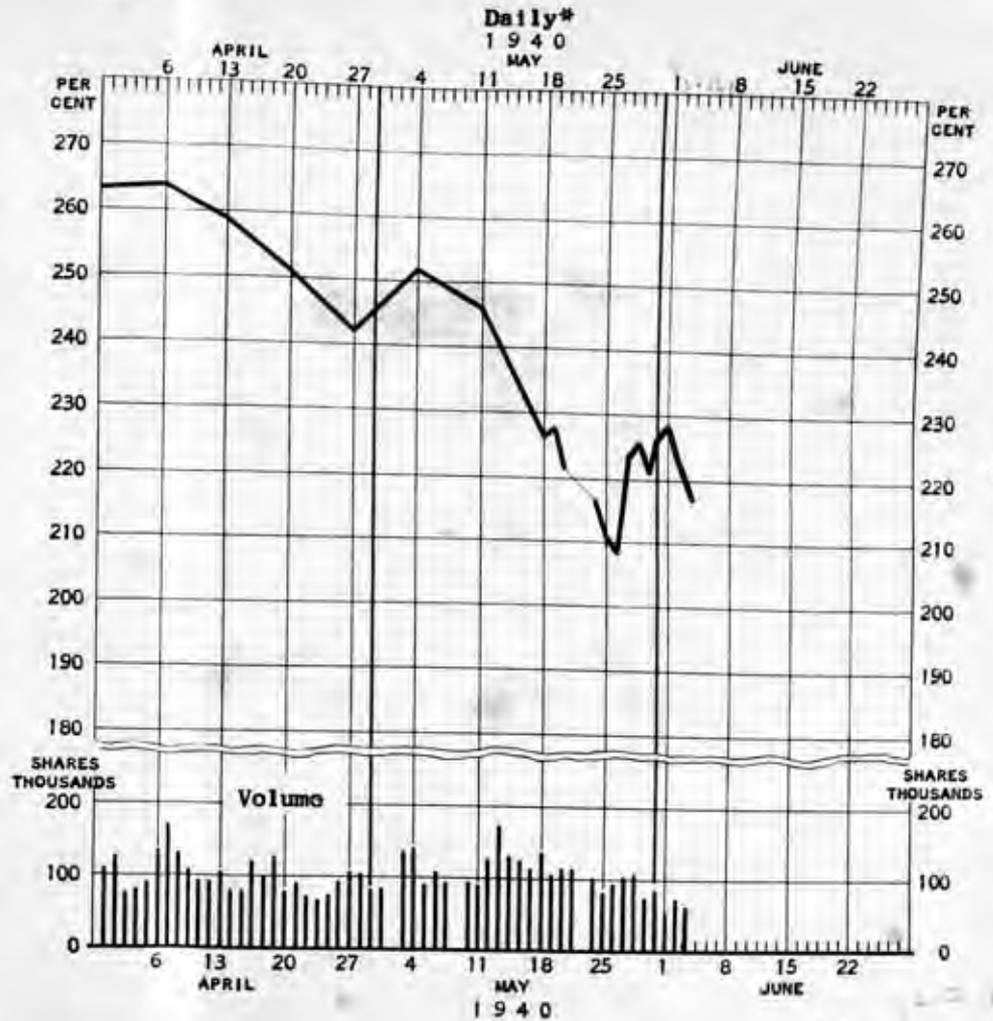
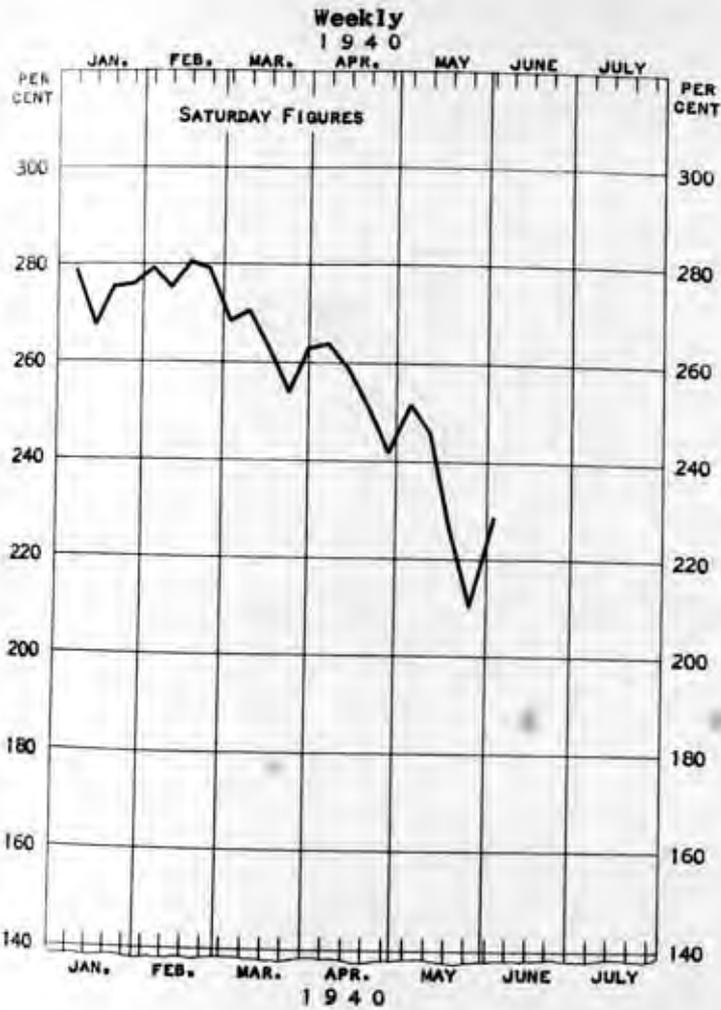
FOR TREASURY FROM BUTTERWORTH.

Churchill's speech in the House of Commons came for the most part too late for the city. Now no one in the city or anywhere else in these islands can but face the ungarished facts of the situation.

KENNEDY

CSB

# ITALIAN STOCK PRICES (Milan)



\*SATURDAY FIGURES PRIOR TO MAY 20.

## TELEGRAM SENT

CK

GRAY

June 4, 1940

5 p.m.

AMERICAN CONSUL

SHANGHAI VIA N. R.

INFO: AMEMBASSY, PEIPING, CHUNGKING.

240.

Your 448, May 24, 11 a.m.

Following is text of General License No. 13, issued  
by Treasury May 31:

"A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of any of the following: the head offices in Java of the Javasche Bank, Nederlandsche Handel Maatschappij, Nederlandsch Indische Handelsbank and Nederlandsch Indische Escompto Maatschappij, the branch offices in Kobe, Shanghai, Amoy, Hong Kong, Manila, Singapore, Bombay and Calcutta of the Nederlandsch Indische Handelsbank and the branch offices in Kobe, Djeddah and Shanghai of the Nederlandsche Handel Maatschappij.

"Banking institutions within the United States making such payments, transfers, or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period."

Sent to Shanghai, Repeated to Peiping, Chungking.

HULL  
(MF)

E:PL:MSC



283

TREASURY DEPARTMENT  
WASHINGTON

June 4, 1940.

MEMORANDUM FOR THE SECRETARY:

Attached is a list of officers and employees of the Treasury Department who will continue to remain in Europe for the time being.

*Basel Harris*

Enclosure.

OFFICE OF THE COMMISSIONER OF CUSTOMS

284

June 4, 1940.

TO MR. HARRIS *BH*

FROM MR. DOW:

After the return to the United States of the officers and employees in Europe now under orders to return, there will remain the following force:

Bordeaux, France

Bernard Wait	Supervising Treasury Attache
Lucien L. Picard	Treasury Representative
Charles Schlager	Treasury Representative
Charles B. Dyar	Special Employee
Stanley Hall	Clerk
Frances Roach Perret	Clerk
Germaine Bryan	Stenographer
Albert Vallet	Messenger (Alien)

Paris, France

J. Homer Butler	Treasury Representative
Frances J. Sherman	Messenger

Milan, Italy

Nicholas Paterniti	Special Employee (Alien)
Elizabeth D. Wasson	Clerk-stenographer

London, England

Sidney J. Kennedy	Treasury Attache
Charles R. Howard	Treasury Representative
Ronald N. Marquis	Treasury Representative
Charles E. Roach, Jr.	Clerk

*Frank Saw*

June 4, 1940

The President has received the following letter of resignation from the Secretary of the Navy, Charles Edison:

"Dear Mr. President:

"As you already know, on May 20, 1940, I issued the following statement:

"When I announced my candidacy for the Governorship of New Jersey, I told the President that I felt I should not remain as Secretary of the Navy for more than thirty days after the Primary. I believed then and I believe now that a Secretary of the Navy -- the head of our first line of defense -- should not also be a candidate for political office. During these trying times there must not be the slightest suspicion that decisions of a Secretary of the Navy are influenced by political expediency."

"Accordingly, I am tendering you my resignation as Secretary of the Navy effective at your convenience.

"The plans that you and I have discussed, anticipating my withdrawal, are well in hand and I leave with the full assurance that this action, at this time, will cause no disturbance in the normal routine of the Department.

"In general, the objectives we have striven for, over the past three and one-half years, have in great part been realized or will be when the present Congress finally passes the current legislative program. The shipbuilding program and plans for its expansion are in good condition as is the Fleet in being. The affairs of the Navy are in the hands of an exceptionally able group of men at this time from Assistant Secretary of the Navy, Mr. Lewis Compton; the Chief of Naval Operations, Admiral Harold Stark; the Bureau Chiefs and Department heads on.

"May I thank you from the bottom of my heart for the fine relations that have existed between us and for the opportunity you gave me to serve my country.

"Respectfully,

"CHARLES EDISON"

-----  
The President, in accepting the resignation to be effective June twenty-fourth, replied:

"Dear Charlie:

"First of all let me congratulate you on your nomination, without opposition, for the New Jersey Governorship. I hope you will be elected -- and I say this because you have a deep-seated feeling of responsibility to good government and efficient government, which I hope will be recognized by the people of your State.

"I am sorry to lose you as the head of the Navy Department -- because you have had experience there, because you understand the multifarious problems of the Navy and because you have greatly contributed to the present efficiency of the Service.

- 2 -

"In regard to the date of your resignation taking effect, I apply the old rule laid down by former Presidents when members of the Cabinet or their assistants have been nominated for elective office. I realize that the active part of your campaign for Governor will not begin for a month or two, but I know also that you will want to visit various parts of the State at an earlier period in order to familiarize yourself with all of the sections and all of the problems of New Jersey, even though, because of your previous experience, you are conversant with every section.

"I know also that in your present position it will take you several weeks to wind up various matters to the progress of which you are essential.

"May I suggest, therefore, that this acceptance of your resignation take place on June twenty-fourth? This will give you enough time I think to finish the immediate tasks at hand.

"Also, I want you to know that I will continue to count on your advice in many matters which relate to the defense development now under way, and I hope you will find time during the next few months to come to Washington frequently in order that I may talk things over with you.

"I need not tell you of the affectionate personal regard in which I hold you, and of the real admiration I have had for your understanding of naval affairs. I congratulate you on the splendid record you have made,

"As ever yours,

"FRANKLIN D. ROOSEVELT"

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286-A

THE WHITE HOUSE  
WASHINGTON

June 4, 1940.

My dear Mr. Secretary:

On December 6th, 1939, I created an informal Committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States.

At my suggestion you designated the Quartermaster General of the Army as a member of this Committee. I should like to substitute for the Quartermaster the Executive Assistant to the Assistant Secretary of War.

Will you please issue appropriate instructions to make this change effective.

Sincerely,



The Honorable,

The Secretary of War.

JI

GRAY

PARIS

Dated June 4, 1940

Rec'd 3:40 p.m.

Secretary of State

Washington

1029, June 4, 6 p.m. (SECTION ONE)

FOR THE TREASURY.

A member of my staff telephoned Pennachio today. He said that he had thus far received from the Department no orders directing him to return to Italy and that the Fascist Grand Council had discussed only "minor questions" at this morning's meeting. Pennachio said that "his people", meaning the Bank of Italy reciprocally fully aware of the extremely grave effect a declaration of war by Italy would have on American public opinion.

A decree published in today's JOURNAL OFFICIAL provides for the compulsory insurance against war risk of stocks of certain commodities deemed vital for the national defense or for the provisioning of the civil population. Heretofore such insurance was optional.

(END SECTION ONE)

BULLITT

KLP

PAP

GRAY

PARIS

Dated June 4, 1940

Rec'd 3:40 p.m.

Secretary of State

Washington

1029, June 4, 6 p.m. (SECTION TWO).

Merchandise not subject to compulsory war risk insurance may also be insured at the same rates. A second decree adds mercury, magnesium, magnesium powder and aluminum powder to the list of commodities which must be insured against war risks.

A third decree adds precious stones whether cut or uncut and gold, silver and platinum jewelry to the list of products which may not be exported from France without special authorization.

The stock market continued downward today in a fairly quiet trading. Rentes showed fractional gains and losses except for the 1925 and 1937 exchange guarantee issues which lost 1.40 francs and 3.15 francs respectively. Other French securities declined by from one to five percent. International stocks were fairly steady. Suez gained 55 points and Royal Dutch 30.

(END MESSAGE).

BULLITT

NK

**C O P Y****DEPARTMENT OF STATE****MEMORANDUM OF CONVERSATION****DATE: June 4, 1940.****SUBJECT: Rumanian War Debt.****PARTICIPANTS: Mr. Radu Irimescu, Rumanian Minister, with  
Mr. Fels and Mr. Livesey.****COPIES TO:**

The Rumanian Minister brought in the notification of the amounts due from his Government June 15 and a file from which he brought forth the text of his note of May 4, 1939 proposing immediate negotiations for the purpose of reaching a new agreement in respect to the debt of his Government to the Government of the United States, and the Department's reply of June 9, 1939.

The Minister said that his Government cannot make the payments required under the present debt agreements

and

and that, therefore, it wishes to negotiate a new agreement. He is considering stating this in his reply to the Department's notification of June 1 and enclosing, therewith, a check for \$90,000.00 or \$100,000.00 to be held in suspense by the Treasury and applied in payment if and when a new agreement has been made.

Mr. Liversey said that this would raise a question for the Treasury as to whether it could accept or even receive the funds and on what terms. The debts are regulated by the laws approving the debt agreements and the Treasury would have to consider what are the powers under those laws, and whether by accepting the deposit it might be regarded as departing from the terms of the debt agreements or having made some new agreement inconsistent therewith. There would be questions for the Treasury to consider and the result might be that it would be deemed necessary to make some disclaimer in reply to the Minister's note.

The Minister said that he supposed, on the other hand, there was nothing to prevent him from coming in with a communication and a check and delivering them to the Department. In the note of June 1 the Department had said that this Government is fully disposed to discuss, through

diplomatic

Applicable channels, any proposals which his Government may desire to put forward in regard to the payment of this indebtedness, and such proposals would receive careful consideration with a view to eventual submission to the American Congress.

Mr. Toles and Mr. Liversay assented that this Government must give consideration to any proposals which are received.

The Minister said that he wanted was to negotiate the full terms of an agreement and have those full terms submitted to the Congress. If there were any difficulties in the Treasury's receiving a check, an alternative might be for him to deposit say \$100,000.00 in the Chase National Bank and to state in his note that he had done this and that the deposit would be held at the disposition of the Government of the United States to be applied pursuant to the terms of any subsequent agreement which might be reached.

The Minister said that he has ten days in which to consider what to do about the June 15 payment. He had thought that he should at first come in and discuss it with the Department and tell us what ideas he had in mind.

Mr. Toles

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Mr. Feis said that the Department would probably wish to discuss the matter with Mr. Bell of the Treasury.

The Minister said that in that case the Department might wish to refer to the statement in its note of June 9 that "the Secretary of the Treasury will be glad to discuss the matter with you and ascertain what your Government has contemplated in order that appropriate consideration may be given to determining whether the President would at this time submit to the Congress such proposal as your Government may desire to put forward".

The Department would then be put in a position to telephone Mr. Bell and arrange an appointment with him, with Mr. Bell informed in advance of what he wished to discuss.

Mr. Feis said that Mr. Livesey would get in touch with Mr. Bell and would communicate with the Minister.

EA:LIVES:WT

C  
O  
P  
Y

EN

GRAY

Berlin

Dated June 4, 1940

Rec'd 2:30 p.m.

Secretary of State,  
Washington.

1660, June 4, 2 p.m.

Three decrees which are contained in a Reichsgesetzblatt just received and which become effective June 8 drastically curtail postal and other communications in the following respects:

All forms of communication within Germany may be subjected to restrictions and conditions by the high command of the armed forces.

Direct and indirect communication with enemy countries (defined as the French and British Empires, Egypt and the Sudan and Irak but excluding Eire, Norway, the Belgian and Netherlands territories and Luxembourg) is forbidden except in special cases permitted by the high command.

Communications to non-enemy countries which it is stated must be confined to the utter minimum must contain no information regarding the military, economic or political situation which might endanger the welfare of the Reich or nations allied or befriended with it. It is forbidden

-2- #1660, June 4, 2 p.m., from Berlin.

Forbidden to send to non-enemy countries picture post cards, Braille writing, puzzles and the like or to use invisible ink, secret codes or shorthand or lined envelopes, letters should if possible be typed and personal letters must not exceed four pages in length, newspapers or periodicals may only be sent by publishers or printers, all envelopes must bear name and address of sender, mail for non-enemy countries must not be inserted in mail boxes but must be taken unstamped to the post office with the sender's identity papers. Telephone and telegraph communication to non-enemy countries is permitted only to individuals and firms licensed by the high command and only specified standard ciphers are admitted.

It is stated that special provisions are to apply to the communications of German Government and party organs and of foreign diplomatic and consular offices.

HEATH

CSB

JT

PLAIN

STOCKHOLM

Dated June 4, 1940

Rec'd 8:42 p.m.

Secretary of State,  
Washington.

587, Fourth.

Finance Minister in speech June 3 emphasized necessity heavy popular sacrifices if inflation to be avoided. At present rate defense expenditure in million crowns 200 monthly and if war continues taxes next fiscal year probably total 2200 and additional borrowing 1000. Riksbank May 31, metallic reserve 792 point 57, foreign exchange 432 point 45, total note cover 2193 point 05, note circulation 1467 point 08. Inventory of foodstuffs other than in households ordered for June 10. Swedish shipping losses May four vessels 9352 tons and two fishing boats. Best planted area increased for 1940 to 53769 hectares.

STERLING

HTM

Paraphrase of telegram No. 87 from Quito, June 4, 1944.

Secretary of State,  
Washington.

Effective and published today a decree regulates exchange operations in Ecuador. The following are the principal features: Hereafter the gold holdings of the central bank are to be revalued on the basis of 16.89 sucres per troy ounce. This revaluation creates a monetary stabilization fund with a resulting surplus. By the above-mentioned decree the central bank alone is authorized to conduct transactions in foreign exchange, the initial dollar buying and selling rate being 17.90 and 18 sucres respectively. Furthermore, 60 percent of the drafts and gold purchased by the central bank are to be applied against collections now pending and the balance for new imports as well as other requirements. As of June 3 commercial banks and others must report foreign exchange holdings; exporters must sell their drafts to central bank. Importers can only clear merchandise on presentation of the drafts in payment drawn through this institution. Exception is provided for imports en route and which have been paid for. There is being forwarded by air mail a full translation of the decree.

LONG

DCA:RHB:NEK

TO THE SECRETARY OF THE  
TECHNICAL DEPARTMENT  
OF THE  
MINISTRY OF THE INTERIOR

REC'D JUN 7 1944

RECEIVED  
DEPT. OF THE INTERIOR

13221

JR

GRMY

Rome

Dated June 4, 1940

Rec'd 10:06 a.m.

Secretary of State,  
Washington.

460, June 4, noon.

Obviously designed to supply important source for financing budget deficit for 1939-40 previously established at 26 billion lire, a ministerial decree published in yesterday's Official Gazette in pursuance of blanket authorization in all recent budget laws authorizes emission for the fiscal year 1939-40 of ordinary treasury bills; amount unstated. A new feature is that whereas such bills formerly were authorized having terms of one year, present authorization provides for periods ranging from one month to one year the interest rate varying from three and one quarter per cent per annum on one and two month bills to five per cent on one year bills.

PHILLIPS

CSB

DATE June 4, 1940

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoke

I called Mr. Bolton at 2:15 o'clock p.m. in reference to his cable No. 499/40 of May 31. I had only yesterday received from the Treasury Department in Washington the text of the note handed by Mr. Pinsent to Mr. Cochran on May 24 so that it had not been possible for me intelligently to study the problem mentioned in his 499/40 before this. I was now ready to discuss the matter with him but anxious to get some more information.

Firstly, I said, when does the contemplated system go into effect, and he replied next weekend according to the present program, unless of course something unexpected develops.

Next, I asked just what did he mean when saying "We are anxious to have sterling officially quoted in New York at 4.02 1/2 to 4.03 1/2." He of course realized I said what our situation was: there was no exchange control here; Federal Reserve bank did not freely deal in foreign exchange and the exchange rates quoted here were those given by the market. The only daily rates published by us were those certified to the Secretary of the Treasury for Custom House purposes. For sterling we were certifying, as he knew, the free and the official rate in accordance with what we understood to be our statutory duty. The various rates published in the System's bulletin and in this bank's review were, of course, nothing more than statistical information. In the circumstances I did not quite know what he meant by "officially quoted."

Next, his question (paragraph four of No. 499/40) whether the present setup under which the British control bought and sold

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 4, 1940.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

FROM L. W. Knoke

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sterling here at the official rates would be sufficient for the official rate to become the dominating and ultimately possibly even the only rate for sterling quoted here: the answer to this question depended upon a number of things but primarily upon the kind of transactions that could lawfully hereafter be transacted at the free rate. In that connection could he tell me what steps were contemplated in addition to prohibiting the sale by nonresidents of sterling securities in the British markets? Would old balances be blocked? His answer was very definitely "No". Did this plan "to place all current payments between the sterling area and the U.S.A. and dependencies <sup>on the basis of</sup> at the official rate" imply that hereafter insurance premiums in sterling would be paid at 4.02 1/2? Freight money, likewise? Profits earned in sterling, dividends, interest also? All this, Bolton replied, would be covered at the 4.02 1/2 rate so that about the only kind of transaction which could lawfully be carried out at the free rate would be the sale of old sterling balances owned by foreigners. That situation would develop gradually as the new arrangement became known. They were fully aware of and quite reconciled to the fact, Bolton continued, that a free rate would continue to be quoted in New York under the new system but their plans were to settle all current transactions between the sterling area and the U.S.A. at the official rate. Their intention was not to attempt to prevent a quotation of free sterling. To curtail the importance of our free market would, they realized, take time. However

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 4, 1940.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoke

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that was their ultimate intention and they would move in that direction all the time. What they would have to consider was whether they should have a legal free market, not a black market. At the moment they preferred to acknowledge the existence of the free market and thus make it legal. That being so, I continued, certification by us of both the free and the official rate for sterling - if certification by us was what they had in mind when speaking of sterling being officially quoted in New York - would have to be continued. If later on the free rate should actually die out, we would, of course, wish to reconsider this question of certification of the sterling rate and presumably then certify only the official rate. Meanwhile, however, it seemed to me continued certification by us of both the free and the official rate for sterling was an obvious necessity. Mr. Bolton replied that under the new setup as presently contemplated the free market would continue to exist.

I then suggested that they explain to me in some detail in what manner he thought he might wish to authorize us to deal in sterling here for their account. In this connection I explained to Mr. Bolton at some length what charges our banks were making here at the moment for the purchase by them of sterling bills at the official rate, that the net price usually paid by them for, say, a 60 day sight documentary bill covering cotton was from 3.99 to 4.00. These banks, it seemed to me, in buying these bills, assumed quite a contingent liability, hence the margin of profit of about one cent per pound. If purchases at the

June 4, 1940.

CONFIDENTIAL FILES

TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

4

official rate were not made on a sufficiently large scale, the importance of the official market might be seriously impaired and that of the free market correspondingly increased. If, in that case, they should subsequently wish to ask us to operate here on behalf of the Bank of England and buy and sell freely at 4.02 1/2 and 4.03 1/2, we could presumably work out some such scheme working as in the past through a bank that would act on our behalf which could buy documentary sterling bills provided the conditions enumerated in his cable under A to D were complied with; and such purchases would be made to the debit of Bank of England's account on our books. The question of our liability or that of our agent would, of course, have to be carefully settled to everybody's satisfaction. As regards selling sterling here at the official rate, this it seemed to me was a much simpler problem and he might conceivably consider to ask us to receive dollar payments to the credit of his account with us on the understanding that the sterling would be made available in London to the party paying the dollars here and that such sterling could be used freely for any purpose. At the present time, I pointed out to him, sales here of sterling at the official rate were small in volume because the tendency was for our banks and merchants to make the necessary arrangements in London themselves. If the Bank of England was interested in broadening the market here for dealings in sterling at the official rate and as he put it in his cable to arrange for as many transactions

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 4, 1940.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

FROM L. W. Knoke

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as may be practicable within the limits of our control and regulations, to be completed between New York banks, it would be up to him to make the necessary arrangements here to facilitate this business and thus eliminate the necessity for people to go into the London market. Mr. Bolton replied that he was fully aware that if this thing were logically carried through, our markets here would do considerably larger business at the official rate than they had in the past.

Mr. Bolton agreed with me that for the time being there was nothing that we could do for him. He emphasized that he had sent his cable simply for the purpose of keeping us posted. He suggested that if I have any further thoughts in the matter I let him know; on the other hand he would keep in touch with me.

LWK:KW

RECEIVED  
JUN 10 1940  
FEDERAL RESERVE BANK  
OF NEW YORK

## AMERICAN CONSULATE GENERAL

Rangoon, Burma, June 4, 1940.

CONFIDENTIAL

SUBJECT: War materials for China. Amending Despatch No. 305 dated April 20, 1940, Rangoon marked "Strictly Confidential."

The Honorable

The Secretary of State,  
Washington.

Sir:

I have the honor to refer to a strictly confidential despatch from this office dated April 20, 1940 reporting statistics of war materials shipped in transit through Rangoon to China for the period March 16 to March 31, 1940.

A notice has been received today from the Defense Department of the government of Burma reporting that there was an error in the figures furnished which formed the basis of the despatch under reference. The following corrections should be made in that despatch to correct the previous error:

Page 2. Under the column "Description and Quantity", line 5: the figure 4,554,000 should be changed to read 455,400.

Page 3. Under the heading "Values by Types of Materials", under the column "Quantity", line 2: the figure 7,535,779 should be changed to read 3,437,179.

- 2 -

All values reported in the despatch under reference remain unchanged.

Respectfully yours,

W. Leonard Parker  
American Vice Consul

In triplicate

800  
JO

June 4, 1940

2:45 p.m.

Present:

Dr. Mead  
Mr. Pirie, British Air Attache

HM, Jr: I am trying to save my time, because maybe both of you know this, but I don't know it, and that is I have this confidential cable from Ambassador Kennedy in which he said "I am informed by Beaverbrook that the best engine, of which plans are already in the United States, is the Centaurus. Two of these are already working with amazing results. We can have them if we want and please advise me quickly."

Is that new to you?

Dr. Mead: I would like him to tell us what it is.

Mr. Pirie: That's the latest Bristol, but I would say it's in the same position as the Vulture.

Dr. Mead: I would. Absolutely. That's the one that was the \$50,000,000 Canadian proposition.

HM, Jr: Couldn't I ask -- how would you describe it?

Dr. Mead: Eighteen cylinder Bristol.

Mr. Pirie: That's right.

(At this point, HM, Jr dictated the following cable to Ambassador Kennedy.)

"Is the Centaurus an eighteen cylinder engine made by the Bristol Company? If it is, we do not want it. Please thank Lord Beaverbrook for his very kind offer."

-2-

Mr. Pirie: They may turn out. It would be very unwise to bank on them at this stage. It's not as far on as the new Rolls, which I would say is 60% of its tests.

HM, Jr: Is that the Model 10?

Dr. Mead: No. An entirely different engine. Hives has informed us by cable and telephone that he would not recommend that engine, so that's what he thinks of the stage of its development.

HM, Jr: I see. As I say, I just wanted to find out. That, gentlemen, is my story.

I take it that you know what we are doing down here about the Rolls Royce.

Mr. Pirie: I was just asking Dr. Mead and he would not tell me anything.

HM, Jr: I think it would be very nice if you would tell, and possibly go down to your office. The plans are somewhere or other, I believe on the high seas.

Mr. Pirie: Oh, yes!

HM, Jr: They have not told us, but I think they are and, as I understand it, once the plans come -- I think they send them to you -- but I understand from Ambassador Kennedy your Government said once they were delivered to me I would become the licensee and they said they would talk money after the war is over.

Mr. Pirie: I think Hives was a little afraid you were not serious. I think Ollie convinced him very thoroughly you were.

HM, Jr: Well, Mead will tell you whether we are serious. If you (Mead) will take him to your office.

oOo-oOo